Institutional Remedial Management | Analytics Team

Enterprise Valuation and Classification Analysis | May 2020

Valaris plc

VALARIS

Strictly Private and Confidential

CONFIDENTIAL

citi

DEBTORS' EX. 005

Table of Contents

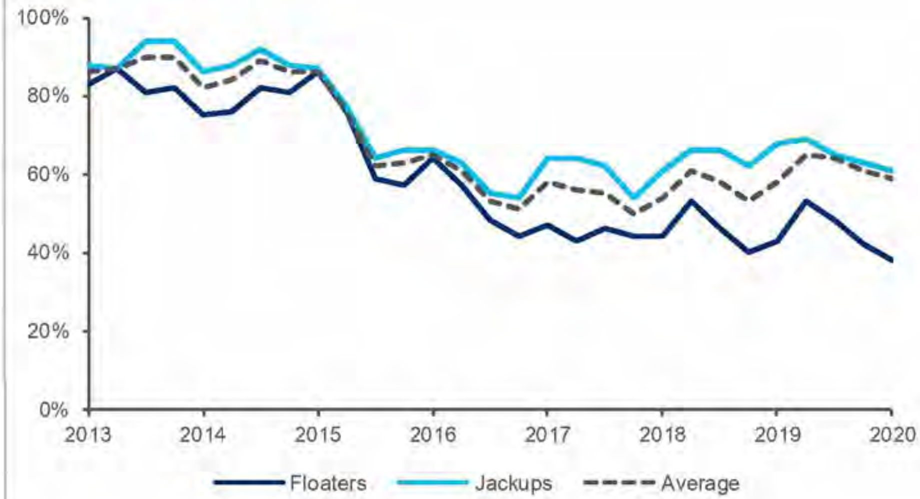
Company and Situation Summary

Valaris Overview

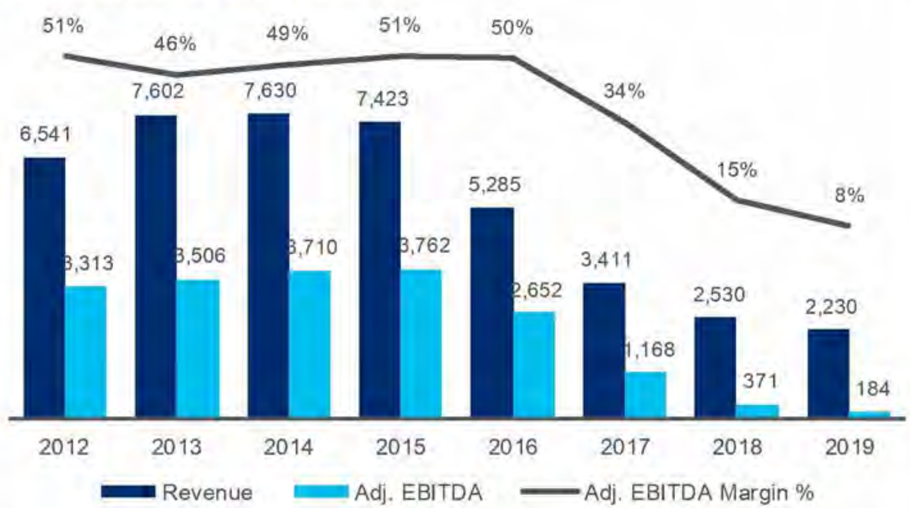
Company Overview

- Valaris (formerly known as Ensco and EnscoRowan) is the largest offshore drilling companies globally, with diversified operations across major offshore basins including U.S. Gulf of Mexico, Brazil, North Sea, Africa, Middle East, Mediterranean and APAC/Far East
- The Company's primary business is to contract its drilling rigs, related equipment and work crews predominantly on a day-rate basis to drill oil and gas wells
- Inclusive of rigs under construction, the fleet consists of 16 drillships (11 best-in-class ultra-deepwater "UDW"), 10 dynamically positioned semisubmersible rigs (9 modern assets with sixth generation drilling equipment), and 60 jackups (including 9 ARO rigs)
- The company is a product of several recent mergers, including recently:
  - *October 2017:* Valaris acquires Atwood Oceanics for ~$865MM (4.5x LTM EBITDA) paid in stock; Atwood shareholders held 31% ownership in the PF entity
  - *April 2019:* Valaris acquires Rowan for ~$1.6Bn (25.4x LTM EBITDA) paid in stock; Rowan shareholders hold 43% ownership in the PF entity
- These 2 transactions moved Valaris from third-largest to largest fleet globally
- In 2016, Rowan and Saudi Aramco created a 50/50 joint venture, ARO Drilling, that owns, manages, and operates offshore drilling rigs in Saudi Arabia currently operating 7 jackups

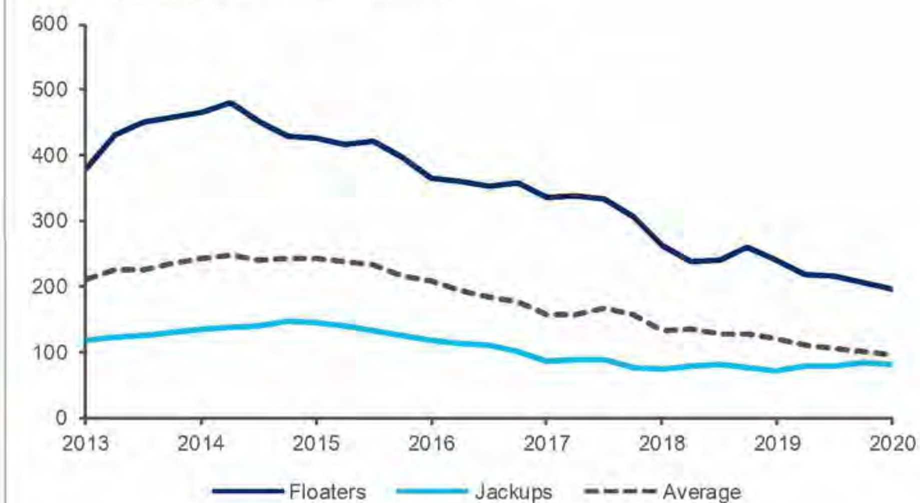
Fleet Utilization



PF Historical Performance (1)



Average Day Rates ($ '000s)



(1) Includes Rowan and Atwood performance.

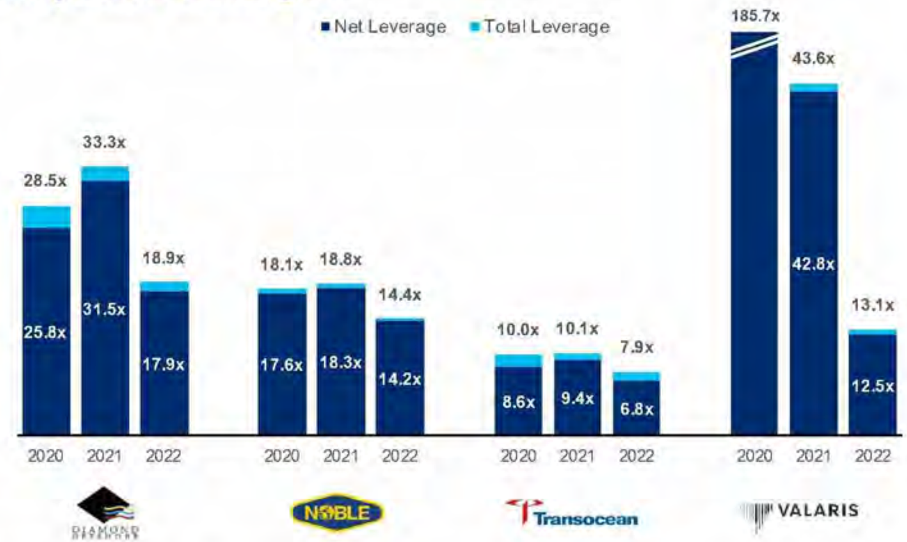
Situation Summary

- **March 2016:** Valaris (formerly known as Ensco and EnscoRowan) was downgraded to Special Mention in Mar'16. **IRM confirmed a Special Mention** classification which reflect on-going challenges faced by Valaris and all off-shore industry participants while acknowledging the credit positives demonstrated by Valaris which include the proactive equity capital raise, the de-leveraging/debt retirement actions, reduction of dividend and extension of the RCF maturity. However, IRM anticipated a further downgrade if the offshore market remained depressed for longer
- **December 2016:** Valaris completed a private placement of $850MM of 3.00% Exchangeable Senior Notes due 2024 (upsized from $750MM). The Company used the net proceeds from the offering to fund the cash portion of Valaris's previously announced exchange offers for outstanding 4.70% Senior Notes due 2021, 8.50% Senior Notes due 2019 and 6.875% Senior Notes due 2020 reducing debt load at a lower interest rate and further improving debt maturity profile
- **January 2017:** Valaris entered into an amendment regarding the delivery of the Valaris DS-10 drillship. The shipyard, Samsung Heavy Industries, agreed to extend the delivery of the drillship to March 31, 2019. In exchange, Valaris agreed to pay $234MM (or 76% of the total amount) upfront in January 2017
- **April 2017:** **Classification was downgraded to SS-P** by line risk on the expectation of deteriorating financial performance during 2017
- **May 2017:** Valaris announced a definitive merger agreement with Atwood Oceanics (ATW; Caa3/B-) in an all stock transaction that exchanges each Atwood's share for 1.6 share of Valaris Stock (further details on the following page). Despite significant shareholder scrutiny, the transaction closed in early October.
- **October 2017:** S&P and Moody's downgraded Valaris from BB and B1 to B+ and B2, respectively, subsequent to the Atwood acquisition. Both rating agencies cited the combined company's diminished liquidity following Valaris's repayment of Atwood's debt, rising leverage and weak industry fundamentals
  - To ensure sufficient liquidity throughout a prolonged downturn, in October the company extended $1.25Bn of the RCF to 2022. In exchange lenders required a 15% upfront commitment reduction, reduced secured debt capacity, included anti-cash hoarding language and added a robust unsecured upstream OpCo guarantee package. Roughly $760MM of lenders did not extend and their commitments will expire in September 2019
  - During this industry downturn, Valaris won 15% of new rig years awarded globally in 2017, more than any other offshore driller, and double that of the nearest independent competitor, demonstrating continued market leadership and positioning the company to be a highly competitive firm through market depression and recovery
- **January 2018**: Valaris completed a debt issuance and tender offer in which it issued a $1.0Bn of 7.75% unsecured notes due 2026 and offered to repurchase up to the same amount of outstanding debt across the 2019, 2020, and 2021 notes. However, only $650MM of notes were tendered, effectively increase debt by $350MM. A positive factor is that the company has now pushed its next significant maturity (>$200MM) to 2024
- **October 2018:** Valaris announced an all-stock acquisition of Rowan for 2.215 Valaris shares per Rowan share, implying an equity value of $2.4Bn with no premium paid. Management expects ~$150MM of run-rate synergies, which they estimate is worth a present value of $1.0Bn. The combined company will have ~$3.7Bn in liquidity[1]. Valaris has not announced whether it will redeem the ~$2.5Bn of Rowan debt outstanding. The transaction closed on 04/11/2019
  - As part of the transaction, Valaris upsized and amended its extending tranche of the RCF maturing 2022. As part of that request, we have updated our Enterprise Valuation to incorporate Rowan into our projections and the recent fleet status reports. We remain covered in both the Base and Downside Cases against the pro forma debt balance, with our view of the near-term outlook regarding the industry unchanged
- **June 2019:** Valaris executed a liability management transaction, using Rowan balance sheet cash to purchase ~$952MM of senior notes across several tranches of legacy Ensco and Rowan notes for ~$724MM, representing a ~24% discount to par
- **November 2019:** Valaris and Citi engaged in discussions to amend the RCF. The amendment would have extended the maturity date for a new 5 year tenor in exchange for a commitment reduction, security, and more restrictive covenant package. After weeks of good faith negotiations, both sides agreed to table further discussions on the amendment/extension due to an inability to agree on mutually satisfactory terms. The existing RCF matures in 2022
- **April 2020:** The twin impacts of COVID-19 and the OPEC+ oil price war caused Valaris to report negative 1Q20 EBITDA and face the cancellation of several rig contracts. The company has publicly acknowledged a debt-for-equity restructuring is a likely option to solving its capital structure. Prior to this announcement, IRM had downgraded Valaris to **Substandard Non-Performing**. As Agent on the RCF, we have engaged financial and legal advisors to support our ongoing restructuring negotiations with the company

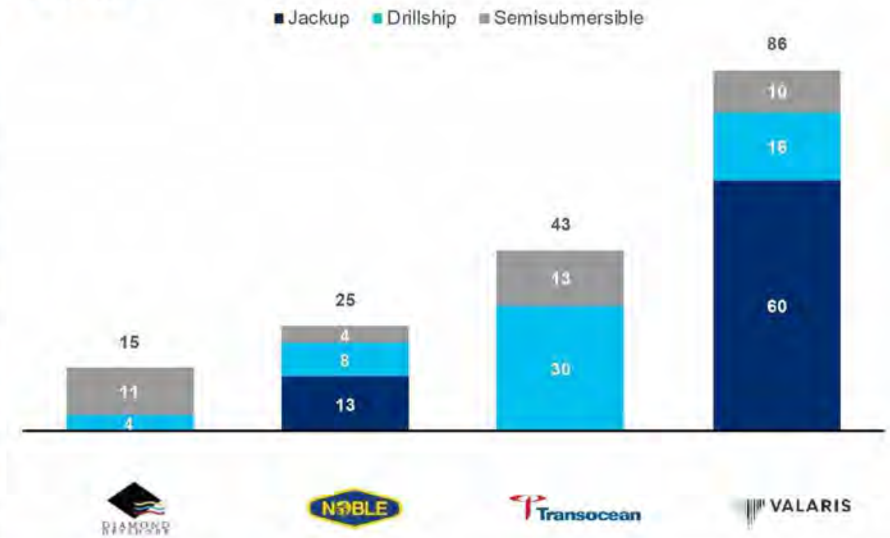
1) Does not include $340MM RCF upsize.

Peer Benchmarking

Projected Leverage (1)

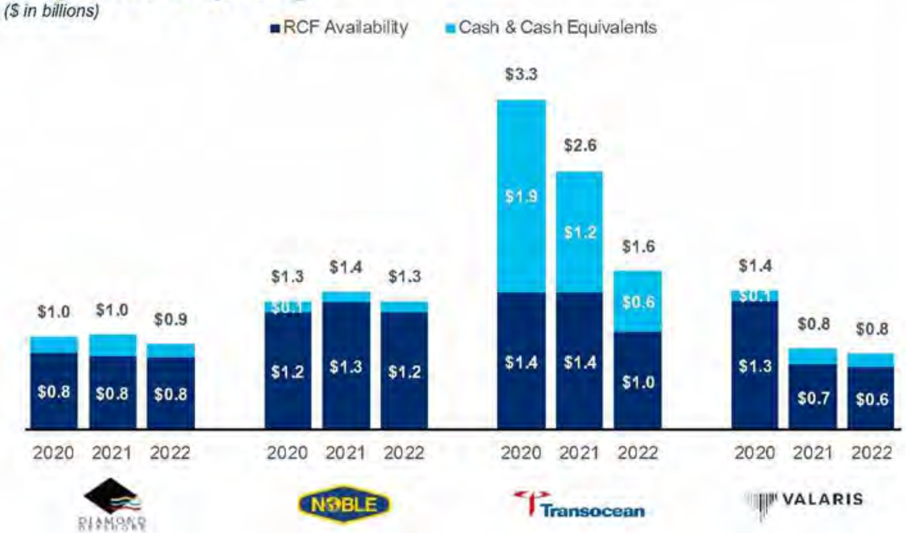


Fleet Mix

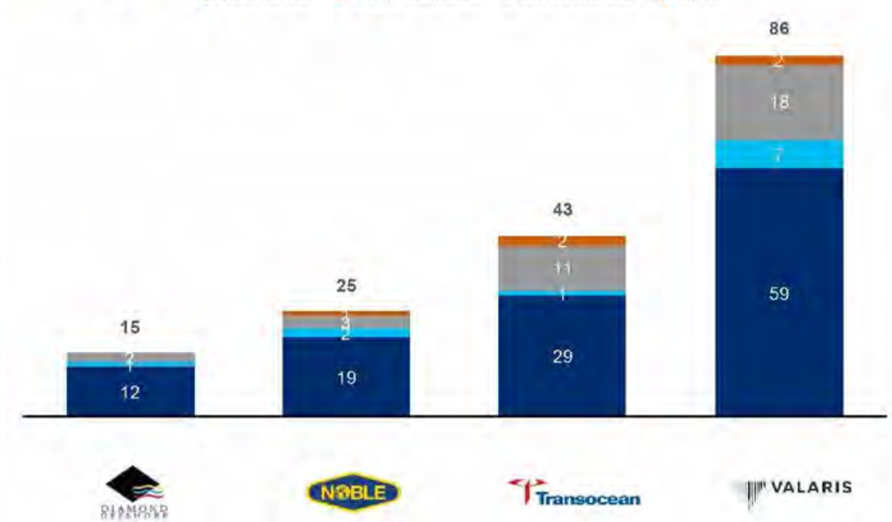


Projected Liquidity(1)

($ in billions)

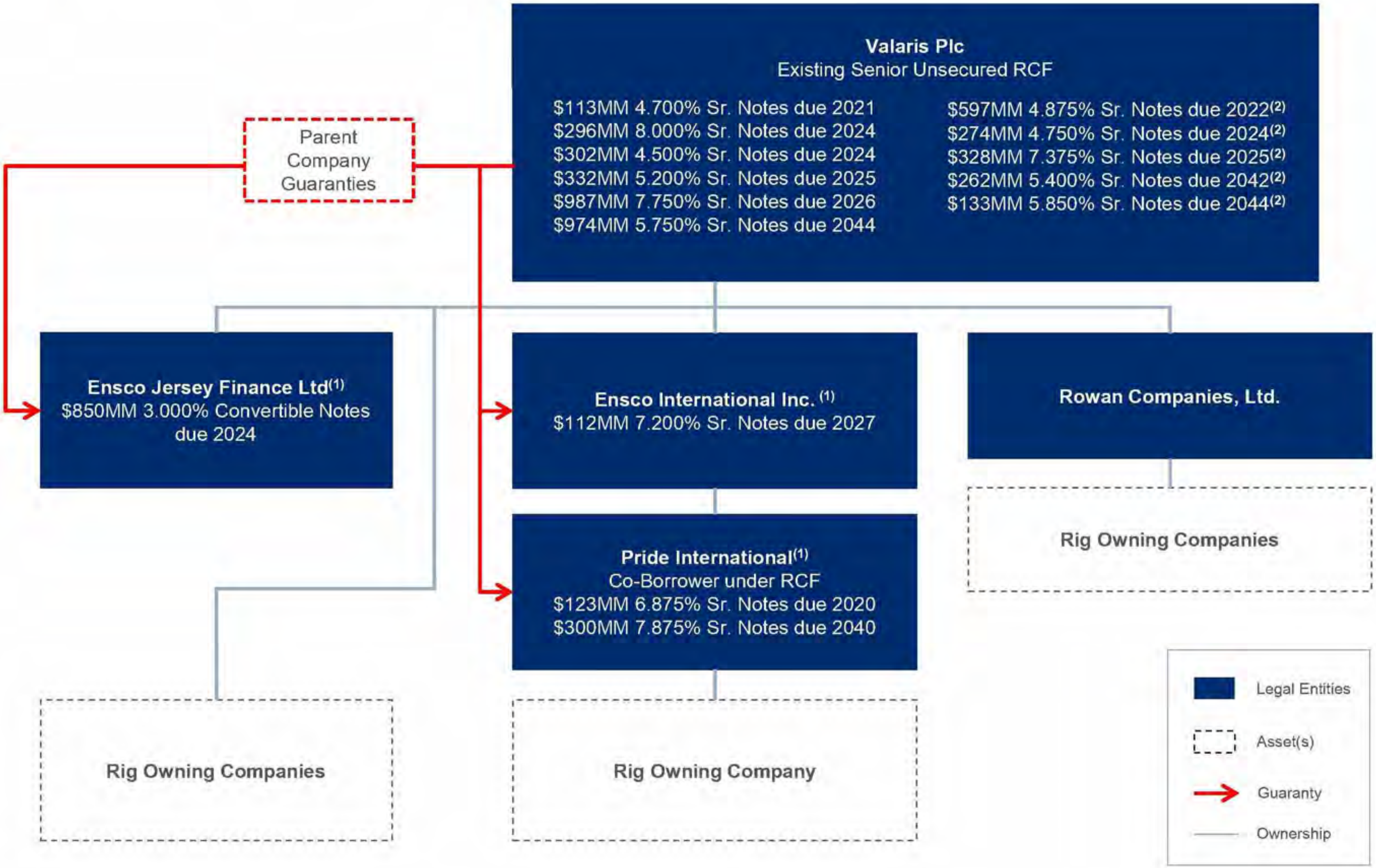


Fleet by Status(2)



(1) Projected leverage and liquidity is based on FactSet, as of 05/06/2020.
(2) Other includes rigs under construction, en route, standby, etc.

Corporate Structure Overview



(1) Guaranteed by Valaris Plc
(2) Notes assumed by Valaris Plc from the Rowan Transaction

Capital Structure Overview

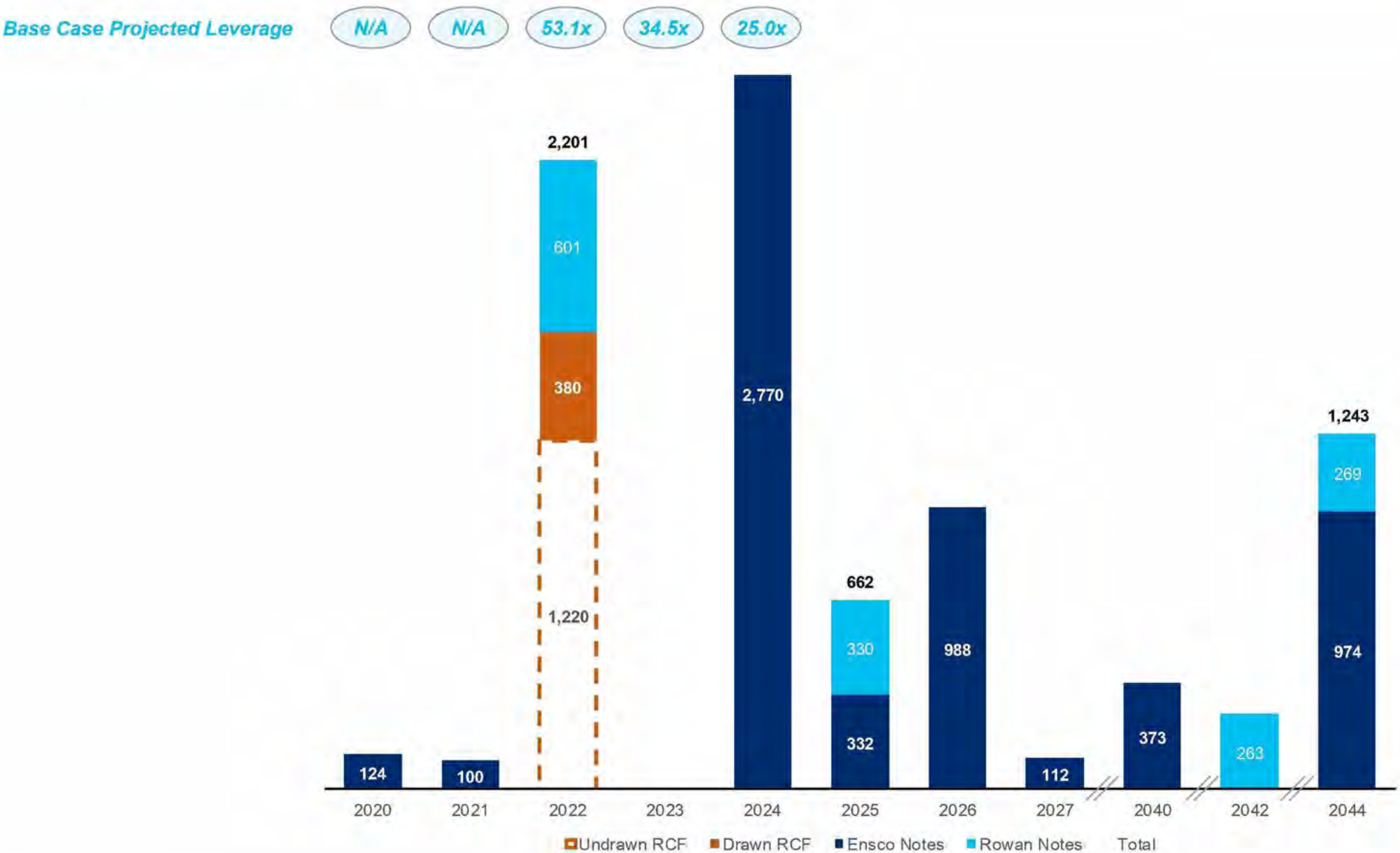
Capital Structure ($MM) As of 04/24/2020	Issuer	Maturity	Rate	Total	Total O/S	Citi Total	Citi O/S	Price[2]	YTW
Cash & Marketable Securities				$184.9	184.9				
Structurally Senior Debt									
$1.6Bn Structurally Senior Revolver	Ensco	Sep-22	L + 425	$1,600.0	380.0	$235.0	55.8		
Guaranteed Notes									
6.875% Senior Notes due 2020	Ensco	Aug-20	6.88%	124.1	124.1	0.0	0.0	$6.50	4,225.32%
3.00% Exchangeable Notes due 2024	Ensco	Jan-24	3.00%	707.7	707.7	0.0	0.0	$16.00	65.53%
7.20% Senior Notes due 2027	Ensco	Nov-27	7.20%	111.7	111.7	0.0	0.0	$8.50	88.13%
7.875% Senior Notes due 2040	Ensco	Aug-40	7.88%	372.8	372.8	0.0	0.0	$7.00	108.88%
Unsecured Notes									
4.70% Senior Notes due 2021	Ensco	Mar-21	4.70%	100.4	100.4	0.0	0.0	$6.50	803.03%
4.875% Senior Notes due 2022	Rowan	Jun-22	4.88%	601.2	601.2	0.0	0.0	$10.50	168.87%
4.75% Senior Notes due 2024	Rowan	Jan-24	4.88%	278.6	278.6	0.0	0.0	$10.00	96.51%
4.50% Senior Notes due 2024	Ensco	Jan-24	4.50%	302.0	302.0	0.0	0.0	$7.50	97.01%
8.00% Senior Notes due 2024	Ensco	Oct-24	8.00%	295.5	295.5	0.0	0.0	$6.50	149.64%
5.20% Senior Notes due 2025	Ensco	Mar-25	5.20%	331.8	331.8	0.0	0.0	$7.50	95.23%
7.375% Senior Notes due 2025	Rowan	Jun-25	7.38%	330.2	330.2	0.0	0.0	$10.50	87.80%
7.750% Senior Notes due 2026	Ensco	Jan-26	7.75%	987.7	987.7	0.0	0.0	$7.50	109.13%
5.40% Senior Notes due 2042	Rowan	Dec-42	5.40%	263.2	263.2	0.0	0.0	$10.00	53.79%
5.85% Senior Notes due 2044	Rowan	Jan-44	5.85%	269.1	269.1	0.0	0.0	$10.00	57.95%
5.75% Senior Notes due 2044	Ensco	Oct-44	5.75%	974.2	974.2	0.0	0.0	$7.00	81.23%
Total Valaris Debt				$7,650.2	$6,430.2	$0.0	$0.0		
Total Debt / EBITDA[1]				76.8x	64.6x				
Net Debt / EBITDA[1]				75.0x	62.7x				

1. Funded debt as a multiple of LTM 1Q20 Adjusted EBITDA of $100MM
2. Per FactSet, as of 05/06/2020

- Following the April 2019 RCF amendment in connection with the Rowan merger, Citi has a $234MM hold in the Company's ~$2.34Bn (previously $2.0Bn) fully undrawn structurally senior revolving credit facility, agented by Citi. In September 2019, the RCF was reduced to $1.6Bn as the non-extending tranche matured
  - Financial Covenant: maximum net debt to capitalization of 60%; as of 03/31/20, total debt to cap ratio was 52.1%
  - The credit agreement contains an incremental debt and a general liens basket for the parent and restricted subsidiaries, both of the lesser of $1.0Bn or 10% of Consolidated Tangible Net Worth, and anti-cash hoarding language
  - Unsecured upstream OpCo guarantees from rig owning entities. The guarantee includes Valaris, Atwood, and Rowan rigs. The borrower is required to ensure that i) at least 80% of the company's aggregate rig value guarantees the RCF (85.8% as of 03/31/20) and ii) the RCF commitment plus any structurally senior or pari debt are covered by the net book value of marketed rigs at least 3.25x (6.09x at 03/31/20)
  - Following the amendment and extension in October 2017, the RCF sits atop the capital structure (previously the RCF was pari with the bonds)
- Citi has other exposures with Valaris including a $45MM SBLC fronting line (Pass / 3+), $20MM PSE line for FX that is currently unutilized and small cross border and domestic collection lines that are also unsecured but benefit from the upstream OpCo guarantee

Debt Maturity Schedule

TBU



citi

Industry Overview

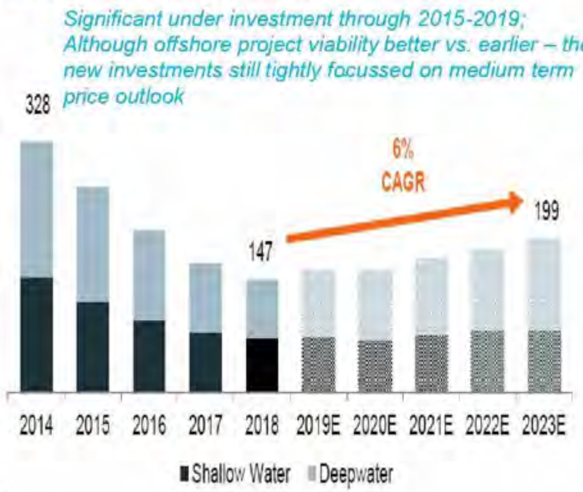
Industry Overview – The Macro View

The MODU[1] industry continued to weather the trough of the cycle through 2017-19. With the recent pullback of oil and subsequent contraction in E&P spending, the recovery timeline of the entire oil services industry is once again in the spotlight. Longer term thesis of reserve replacement and incremental oil demand to support emerging market consumption behemoths provides "right to exist", near-term, the prescription remains the same: i) refocus on cost-savings ii) utilization push iii) liquidity build iv) increased scrapping and v) capital restructuring

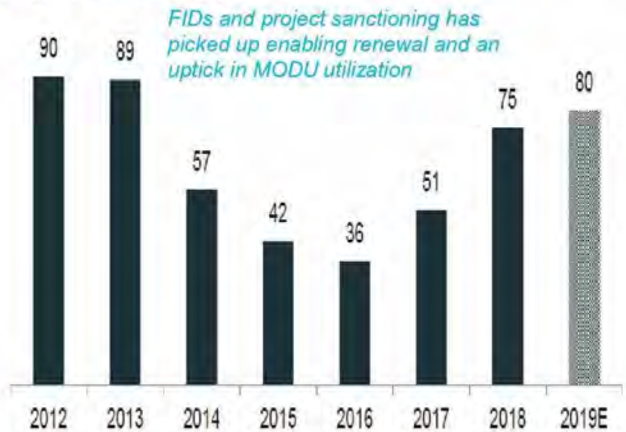
Industry Summary

- Offshore drilling companies through 2015-17 have witnessed a significant reduction in their contracted orderbook positions, dayrate realization and overall fleet utilization driven primarily by three factors i) decline in energy commodity prices led by new supply from USA and normalization of production levels from marginal producers, Libya, Nigeria, Iran et al. ii) E&P spending pullback from the majors, total annual capex has declined by more than 60% vs. 2014 and iii) over capacity given aggressive capacity additions during 2010-14
- 2018-19 was a period of stable to increasing dayrates and utilization post three continuous years of declines, E&P capex for the last two years has been on the rise but hasn't seen a step-function increase to retrace 65% of the absolute amount of investment lost since 2014. Offshore capital spending was ~$320BN in 2014 and was $150-160BN a year through 2019. Fears of underspending in the last three years, stable demand outlook from Asia and geopolitical concerns have allowed oil prices to remain in the $50-60/bbl range for the majority of the last few years. However, given Covid-19 pandemic, flagging consumption growth and a fall out of discussion on supply curtailment between Russia and Saudi Arabia led to oil prices testing new lows through March 2020, putting paid to notions that offshore drillers were finding a balance to enable a strong recovery into 2021-25e
- The longer term narrative for the offshore drillers continues to be one of protracted recovery. Consolidation, managing fleet costs, terming out tenders and building sufficient liquidity are some of the key factors to withstand the prolonged downturn. Field depletion, reserve replacement, increased demand from China, India, South-East Asia, caps on shale production, obsolescence of cold stacked fleet, as well as consolidation are the longer-term drivers which may aid the cyclical recovery through 2021-2025e. On the flip side, the alacrity in which E&P firms have started cutting back on dividend and capex is indicative of deeper problems heading into 2020e; contract cancellation, force majeure, dayrate reductions, timing delays are some of the possible downsides being currently factored by industry viewers

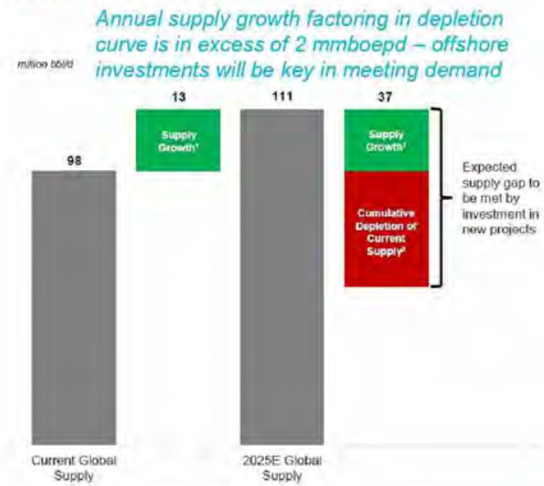
Global E&P Offshore Capex



Major Offshore Projects Sanctioned



Expected Global Supply



CONFIDENTIAL

citi

CITI_DIP_0002396

Industry Overview – Utilization & Rates

Rig demand was slowly increasing given scrapping and new FIDs; nascent demand recovery is expected to dissipate with absolute new MODU rig deployment less than 100 units vs. 300 available

Floaters

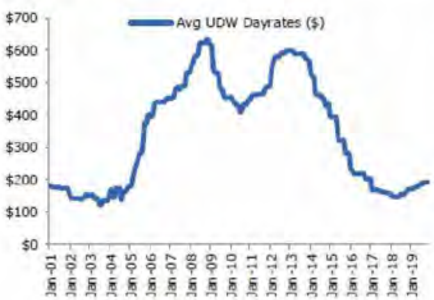
New floater demand worse place as compared to JUs given deep-water cost curve and complexity of new FIDs. CIRA estimates just ~30 new contract floaters being deployed through 2020-24E

Jackups

Loss of JU demand less severe given shallow water functionality and baseline production usage. New JU demand in terms of units far less than initially anticipated (~60 now vs. 100 earlier)

Rates through 2019 showed a recovery, however given the recent pull-back in capex by E&P majors, stagnation through 2020-21e is the new consensus with question marks over dayrate discipline over sheer deployment benefits

UDW Dayrates



- UDW average rates lower by 70% in 2018 from 2008-14 levels
- CIRA expects rates climb of 150-200-250-300 through 2019-22P

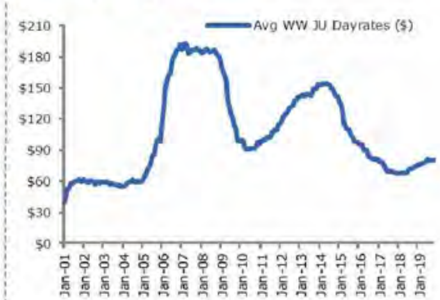
Midwater Dayrates

- Midwater assets (semi-subs, 3G/5G assets) rates lower by 60%
- Rate increase for pre-6G assets more uncertain given specs and age; likely scrapping candidates

North Sea Jack-Up Avg Dayrates

- North sea floater rates have declined similar to UDW rigs ~65%, however recovery in the market has been strong
- Limited harsh weather rigs coupled with drilling activity supports dayrates climbing to $300k+ by 2020/21P

Jackup Avg Dayrates



- JU dayrate average are lower by50% since 2008-14
- Newbuild additions and standard JU deployment key risks behind a meaningful recovery in rates

Source: Wells Fargo and CIRA

Industry Overview – IRM Dayrate Assumptions

Still Too Many Rigs

IRM Assumption Notes

- Even on bullish case the total additional floater requirement could be up to 60 new deployment through 2020-26e vs. 100+ of supply (including new builds). Midpoint new additions through the next five years are ~30 new rig placements
- Similarly for Jackups – additional mid-point requirement of 90-100 new JUs to be contracted vs. ~150 available
- Positively, many of the large drillers have shown good capital discipline by cancelling new build orders through 2018-19 (VAL, RIG and SDRL earlier)
- Note we apply the dayrates to the uncontracted portion of the forecast. The dayrate assumptions are an amalgamation of research reports (including CIRA) and IRM adjustments to reflect the protracted nature of recovery and the wide misses to forecasts / guidance registered by both Offshore drilling companies and Equity research. Our 2020P rates are in-line with current recorded dayrates for specific asset classes and increase to cycle averages by 2023-24P as more FIDs get sanctioned and given the time period, the overcapacity in the MODU fleet dissipates (scrapping, inability to market, technical obsolescence etc.)
- Shallow water assets over the last two years have fared better given the lower initial investments and quicker discovery to extraction timelines. Almost all projects over the last 3-5years have registered significant costs savings with structural changes in the per barrel cost of offshore barrel. With that in mind, our Jackup rate discount to industry estimates is around the 10% vs. Floater dayrate discounts of up to 32%. That being said, there are several high quality rigs with long-standing relationship with client and field knowledge which can enable much higher rates vs. averages and our forecasts do build on that wherever possible
- Aside from very select transactions in the market, the broad range of rates in the floater market continues to be in the $150-200k/day for 2019-20e contracts and this situation will only improve as Tier-1 & 2 floater assets are locked away for long-term contracts forcing new contracts to be signed at significantly higher rates or trading down the Tier
- The current supply-demand picture for MODUs appears challenging with oil demand in a recessionary environment coupled with Covid-19 outages suggestive of extremely limited contracting activity in 2020 except for those already sanctioned for lucrative long-tail assets8.25

IRM Dayrate Forecasts ($ k/day)

				Forecast Period						
Dayrate Summary ($k/day)	2017A	2018A	2019A	2020P	2021P	2022P	2023P	2024P	2025P	2026P
Floaters										
7G	176	173	185	210	200	235	265	290	315	340
6G	155	156	170	190	180	215	240	265	290	310
5G	134	139	150	150	135	175	175	175	180	195
Jackups										
Standard Jackup	57	57	60	60	55	60	70	70	70	75
High Spec Jackup	77	77	80	80	75	90	95	105	110	120

Forecasts for floaters on average 20% below industry and 10% below for Jackups. Industry continues to factor a multi-year step function jump in rates to arrive at long-term averages

Industry Forecast Snapshot and Variation to IRM

	2019	2020	2021	2022	2023
Transocean Sep 2019 Dayrates					
7G/6G Dual BOP	180	275	350	400	420
7G/6G Dual Activity	180	275	350	400	420
6G Standard	160	265	325	375	375
5G Dual Activity	150	245	300	350	350
5G Standard	125	195	285	285	285
Deepwater	160	220	250	250	250
HSHE Semis	375	420	475	503	434
HE Semi	245	300	330	345	295
Midwater	150	170	200	200	200
Seadrill Oct 2019 Dayrates					
Floater BE	190	230	275	350	400
Floater HE	203	240	275	450	500
Jackup BE	83	90	100	105	115
Jackup HE	200	209	226	246	246
Other Dayrates					
JPM Floaters 2Q 2019	150	175	210	300	350
QGOG Constellation BR Floaters Jan 2019	175	230	260	280	340
Clarksons 2Q19 Mid Floaters	170	225	260	335	350
Valaris Nov 2019 Floaters	90	161	200	263	297
Valaris Nov 2019 Jackups	70	96	106	121	125
Morgan Stanley 6G+ Dec 2019	213	288	325	375	400
Morgan Stanley Pre 6G+ Dec 2019	153	193	213	225	250
MS Standard JU [Old >20yrs age]	55	60	65	70	70
MS Premium JU	70	85	100	120	120
MS Hi Spec JU	90	110	125	150	150
Averages in Model Format					
Floaters					
7G	194	270	325	406	435
6G	165	220	256	302	331
5G	142	193	246	275	283
Standard Jackup	69	82	90	99	103
Premium Jackup / HiSpec	80	98	113	135	135
Jackup Harsh Enviroment / Hi Spec	124	136	150	167	170
Current Dayrates Assumptions vs. Industry Forecast Avg.					
7G	*(4.6%)*	*(22.1%)*	*(32.3%)*	*(32.3%)*	*(24.1%)*
6G	*2.8%*	*(13.5%)*	*(21.9%)*	*(17.3%)*	*(9.3%)*
5G	*5.9%*	*(17.0%)*	*(28.9%)*	*(27.1%)*	*(20.5%)*
Standard Jackup	*(6.2%)*	*(8.5%)*	*(11.4%)*	*(8.8%)*	*(3.2%)*
High Spec Jackup	*0.0%*	*(7.7%)*	*(6.7%)*	*(18.5%)*	*(7.4%)*

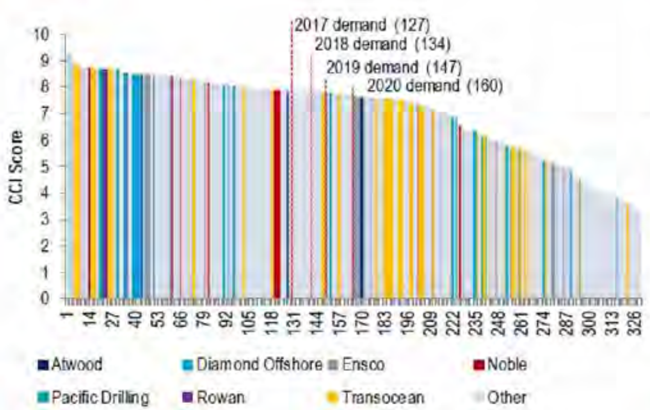
IRM Assumptions – Macros and Mendoza

In order to determine which MODUs come back online / are viable for restarts and re-contracting in the recovery phase of the offshore drilling market, we have utilized CIRA's proprietary CCI score methodology

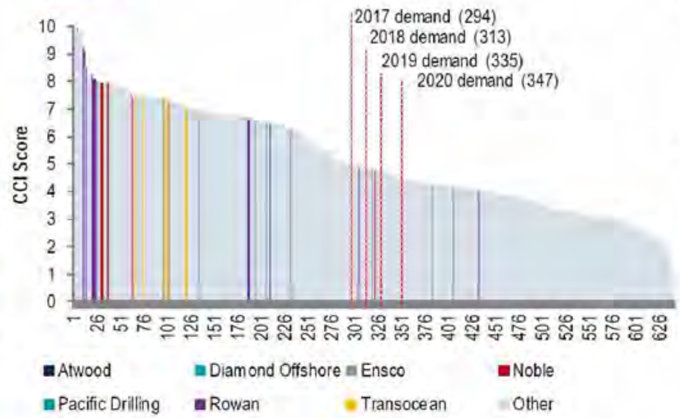
Notes

- Transocean, Diamond, Valaris, Noble, Seadrill Group, Odjfell, Saipem, Vantage, Maersk and Borr own around 3/4th of the contracted offshore drilling rigs, the remaining rigs are owned by small / independent (<10 rigs) operators. The fragmentation of the industry has materially declined through 2014 given three large M&A (RIG+Songa, RIG+ORIG, ESV+RDC)
- Dayrate recovery, utilization and the absolute number of rigs which are reactivated or scrapped are co-dependent of each other. For e.g., scrapping of technically adequate but stacked rigs by the main operators will have a positive impact on rates and conversely reactivating rigs earlier than demand uptick can lead to more protracted recovery in rates
- We believe the critical success factors for OFS Driller Cos continues to be a) asset type (age and yard build) b) utilization and dayrates c) backlog d) newbuild, restart capex e) relationship with international E&P majors f) regional diversity and g) liquidity
- For determining which rigs have the highest probability of getting new contracts during the estimated 2020-26P upcycle, we utilize the Mendoza curve established through the **Citi Complexity Index (CCI)**
  - **CCI** is calculated by CIRA regressing historical dayrates generated by each rig the based on various factors that outline below in the table. For the Mendoza Line, the intersection of the supply curve with demand highlights the threshold below which an Offshore Driller is increasingly challenged to justify a rig's existence in its fleet. Ultimately, CIRA's analysis indicates which rigs are most likely to work and which face more competition for a very limited set of opportunities
  - This does not imply that rigs above the watermark don't get work and have to be scrapped, but the justification for deploying is greater and probability of contracting lower. Similarly, not all rigs below the mark will be automatically deployed, rate, tenure and potential investment negotiations will form a large part of the equation

Floaters



Jackups



Key Variations Noted through 2018

- The total floater demand is expected to remain flattish around the 130-140 rigs mark in 2019/20P given current state of contracting
- New deployment through 2020P not as bullish as previously expected
- Rigs on the right of the Mendoza line finding short-term work and competing on rates
- Management noting new requirements for technical qualification and subsequently reinvesting in assets to compete effectively

Source: The Offshore Driller Mendoza Line How to Assess Rig Quality in Potential, Citi Research, March 2017

Financial Analysis

Historical Financial Spreads

(Dollars in Millions)	12-Months Ended December 31, 2017	2018	2019[1]	LTM 03/31/20	3-Months Ended[1] 03/31/19	03/31/20
Income / Cash Flow Statement						
Floaters	1,143.5	1,013.5	1,048.0	961.3	266.3	179.6
Jackups	640.3	630.9	972.6	890.4	295.0	212.8
Other	59.2	61.0	209.1	252.2	21.1	64.2
Early Termination Payment	-	-	-	-	-	-
Revenues	**$1,843.0**	**$1,705.4**	**$2,229.7**	**$2,103.9**	**$582.4**	**$456.6**
% Growth	*-28.3%*	*-7.5%*	*30.7%*			*(21.6%)*
COGS	(1,189.5)	(1,319.4)	(1,936.8)	(1,913.4)	(494.4)	(471.0)
Gross Profit	**$653.5**	**$386.0**	**$292.9**	**$190.5**	**$88.0**	**($14.4)**
Gross Profit Margin	*35.5%*	*22.6%*	*13.1%*	*9.1%*	*15.1%*	*(3.2%)*
SG&A	(116.6)	(61.1)	(100.9)	(90.9)	(37.6)	(27.6)
% Growth	*90.5%*	*(47.6%)*	*65.1%*			*(26.6%)*
% Revenue	*6.3%*	*3.6%*	*4.5%*	*4.3%*	*6.5%*	*6.0%*
Adjusted EBITDA	**$536.9**	**$324.9**	**$192.0**	**$99.6**	**$50.4**	**($42.0)**
EBITDA Margin	*29.1%*	*19.1%*	*8.6%*	*4.7%*	*8.7%*	*(9.2%)*
Cash Interest	(199.8)	(232.6)	(448.5)	(442.2)	(119.5)	(113.2)
Cash Taxes	(62.8)	(58.4)	(115.6)	2.3	(45.4)	72.5
Change in Working Capital	65.4	(18.0)	(39.1)	(198.3)	29.3	(129.9)
Other[2]	(80.3)	(71.6)	116.2	32.9	91.5	8.2
Cash Flow from Operations	**$259.4**	**($55.7)**	**($295.0)**	**($505.7)**	**$6.3**	**($204.4)**
Maintenance Capital Expenditures[3]	(106.9)	(85.6)	(254.6)	(205.5)	(83.2)	(34.1)
Normalized Free Cash Flow	**$152.5**	**($141.3)**	**($549.6)**	**($711.2)**	**($76.9)**	**($238.5)**
Growth/Other Capital Expenditures	(429.8)	(341.1)	(42.8)	(28.8)	(16.2)	(2.2)
Cash Divestitures/(Acquisitions), net	(868.8)	11.0	949.6	938.9	10.4	(0.3)
Equity Issuance/(Repurchase), net	-	-	-	-	-	-
Dividends	(13.8)	(17.9)	(4.5)	-	(4.5)	-
Free Cash Flow	**($1,159.9)**	**($489.3)**	**$352.7**	**$198.9**	**($87.2)**	**($241.0)**
Balance Sheet						
Cash and Equivalents	885.4	604.1	97.2	184.9		
of which Marketable Securities	440.0	329.0	-	-		
Undrawn Liquidity	2,000.0	2,000.0	1,600.0	1,264.7		
Less Debt Due w/in One Year	-	-	(124.8)	(224.5)		
Total Liquidity	**$2,885.4**	**$2,604.1**	**$1,572.4**	**$1,225.1**		
Revolver Outstanding	-	-	-	332.1		
Term Loans	-	-	-	-		
Senior Bonds & Notes	4,750.7	5,010.4	5,923.5	5,816.5		
Total Debt	**$4,750.7**	**$5,010.4**	**$5,923.5**	**$6,148.6**		
Secured Debt	-	-	-	-		
Unsecured Debt	4,750.7	5,010.4	5,923.5	6,148.6		
Total Debt	**$4,750.7**	**$5,010.4**	**$5,923.5**	**$6,148.6**		
Total Assets	14,625.9	14,023.7	16,931.2	14,025.1		
Total Equity	8,730.0	8,088.8	9,309.6	6,295.6		
Total Capitalization	**$13,480.7**	**$13,099.2**	**$15,233.1**	**$12,444.2**		
Credit Ratios						
Total Debt / LTM EBITDA	8.8x	15.4x	30.9x	61.7x		
EBITDA / Interest Expense	2.7x	1.4x	0.4x	0.2x		
Total Debt Repayment Capacity[4]	0.5x	0.3x	0.1x	0.1x		
Fixed Charge Coverage Ratio[5]	0.7x	0.4x	0.2x	0.1x		
Debt to Capitalization	35.2%	38.2%	38.9%	49.4%		

1. Pro Forma for Rowan 1Q19 performance, which is not part of Valaris consolidated financials as the merger closed on April 11, 2019
2. Other include cash portion of capitalized interest for quarterly and other expense related to currency exchange gain / losses
3. Maintenance Capex includes rig enhancements, minor updates and improvements, while growth Capex relates to new rig constructions
4. Total Debt Repayment Capacity and Senior Secured Debt Repayment Capacity Ratios calculated as Adj. EBITDA / (Cash Interest + Cash Taxes + Dividends + CapEx + 7% of Total Debt or 14% of Senior Secured Debt)
5. Fixed Charge Coverage Ratio calculated as Adjusted EBITDA/(Cash Taxes + CapEx + Dividends + Cash Interest+ Current Maturities of Long Term Debt)

Please note FY19 and 1Q19 are on a PF basis for legacy Ensco and Rowan, with certain figures only available as of 2Q19 as the companies merged on 4/11/19

- **Revenues** fell 21.6%, or $125.8MM, compared to 1Q19, primarily due a 20% decline in day rates from ~$199k/day to ~$95k, while rig utilization was roughly flat at 59%
  - 1Q20 Floaters Revenues decreased 32.6%, or $86.7MM compared to 1Q19, primarily driven by a 18.7% drop in average day rates ($196kpd vs. $240kpd) and a drop in utilization to 38% from 43% a year prior
  - 1Q20 Jackups Revenues fell 27.9%, or $82.2MM compared to 1Q19, primarily driven by a drop in utilization to 61% from 68% a year prior, offset by a 12.9% increase in average day rates ($81kpd vs $72kpd)
  - Management expects that the remainder of 2020 will be a challenging year for contractors as customers wait to gain additional clarity on commodity pricing and seek to reduce costs in the near-term by attempting to renegotiate existing contract terms. The current market and macro-economic conditions will create a challenging contracting environment through at least 2021
- **Adj. EBITDA** was negative in 1Q20 at $(42.0)MM, compared to $50.4MM in 1Q19. This was driven by a non-drilling incident with DS-8 that caused the rig to go off-contract and not earn a dayrate for almost a month. Combined with extra cost associated with the incident, this had a $15MM negative impact. Additionally, there was $14MM of higher repair and maintenance costs related to startup costs for jackups in the North Sea. Generally, it appears that rigs are operating at day rates just at or slightly below break-even levels
- **Normalized Free Cash Flow** declined to $(238.5)MM in 1Q20 compared to $(76.9)MM in 1Q19 due to aforementioned negative EBITDA and a $129.9MM working capital outflow related to the Rowan merger
- **Liquidity** as of 12/31/20 was $1.2Bn, comprising of $184.9MM of cash and ~$1.3Bn available under the $1.6Bn RCF, net $225MM of debt due within the next 12 months
  - Per the lender May 2020 lender presentation, $380MM is now drawn on the RCF (as of 04/24/20)
  - On 12/30/2019, Ensco received a $200MM payment from Samsung Heavy Industries (SHI) for losses incurred in connection with the DS-5 drilling services agreement with Petrobras
- **Leverage** continued to rise, increasing to 61.7x as of 1Q20 vs. 30.9x at FYE19 and 15.4x at FYE17 driven by declining EBITDA and debt incurred from the Atwood and Rowan mergers. LTM TDRC and FCCR are both below 1.0x, at 0.1x and 0.1x, respectively

EBITDA Bridge

($MM)	Year Ended December 31, 2017	2018	2019	LTM 03/31/20	3-Months Ended 03/31/19	03/31/20
Net Income (Loss)	**($304.2)**	**($636.6)**	**($192.2)**	**($3,011.9)**	**($188.0)**	**($3,007.7)**
Add: Gain / (Loss) from discont. Ops	(1.0)	8.1	0.0	0.0	0.0	0.0
Add: Depreciation and Amortization	444.8	478.9	609.7	649.2	125.0	164.5
Add: Interest Expense, net	198.4	268.2	400.2	431.1	77.5	108.4
Add: Tax Expense	109.2	89.6	128.4	(55.1)	31.5	(152.0)
GAAP EBITDA	**$447.2**	**$208.2**	**$946.1**	**($1,986.7)**	**$46.0**	**($2,886.8)**
Add: Stock Based Compensation	41.2	41.6	37.3	39.8	5.3	7.8
Add: Other Non-operating Expense[1]	48.5	75.1	(900.4)	1,906.0	2.3	2,808.7
Less: Early Termination Payments	0.0	0.0	0.0	0.0	0.0	0.0
Plus: Equity in Earnings of ARO	0.0	0.0	0.0	6.3	0.0	6.3
Rowan Merger Adjustments	0.0	0.0	109.0	134.2	(3.2)	22.0
Citi Adjusted EBITDA	**$536.9**	**$324.9**	**$192.0**	**$99.6**	**$50.4**	**($42.0)**

1. Other expense includes $712.8MM of purchase price gain in connection with the Rowan acquisition in FY19, $40.3MM of loss on impairment in FY18, $182.9MM of loss on impairment in FY17, and losses on debt extinguishment of $287.8MM in FY16

- Citi Adjusted EBITDA excludes non-recurring cash / non-cash items
- We have adjusted our EBITDA to account for certain one-time items that occurred, during the Rowan acquisition, as well as adjusting for non-cash merger accounting

Enterprise Valuation

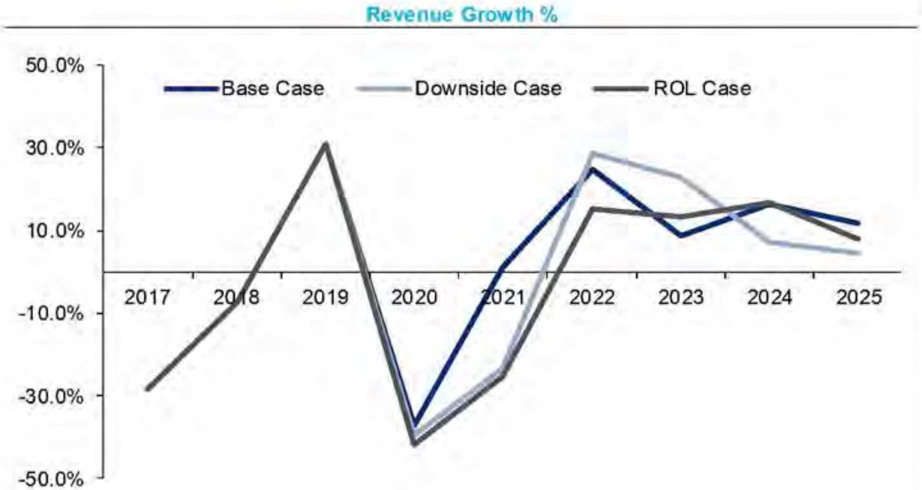
Offshore Drilling – General Assumptions

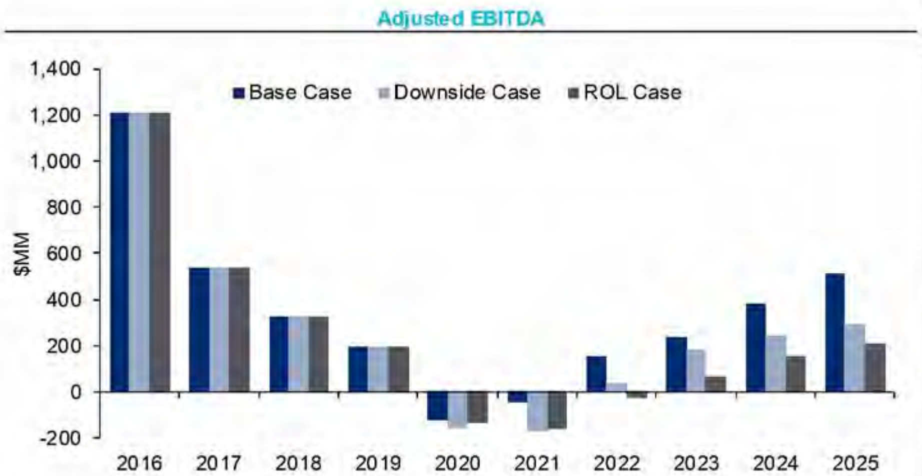
TBU

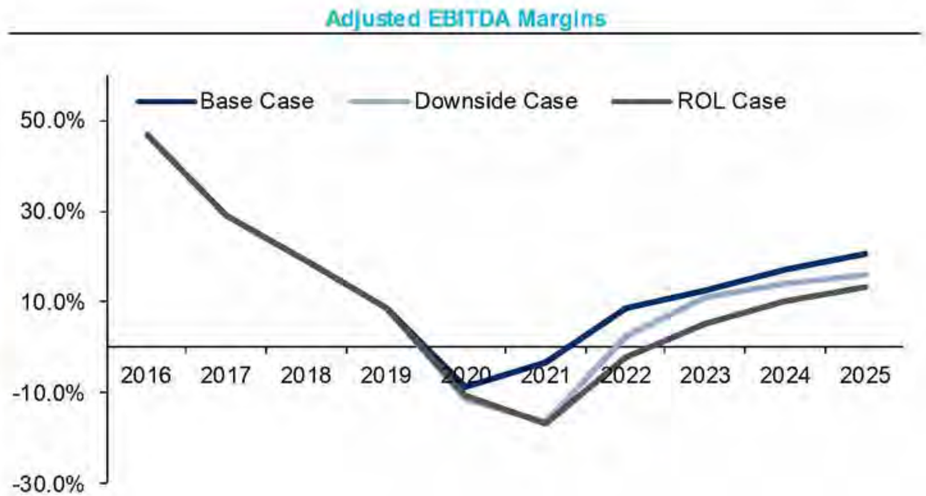
Primary assumption of the forecasts is standard execution of the contracted backlog per latest fleet report (April 2020) through all the cases. We incorporate the IRM Offshore dayrate curve for the uncontracted portion in all the Cases. Sensitivities include revenue efficiency and timing of restart

	Base Case	Downside Case	Risk of Loss Case
Contracted [Firm / Options]	Continues to perform on contracted basis, with minimal sensitivities applied as majority of contracted drillships/jackups are now at market dayrates ($150-200k/day) and not the 2014/15 rates of $400k/day+ and thus have limited risk of being repriced, additionally the majority of the contracts are with large highly rated E&P majors Total, BP, and Saudi Aramco. We assume options are not exercised given the market uncertainties. Current contract information is sourced from the 04/26/2020 fleet status report		
Un-contracted [or Options]	Valaris has identified ~21 off-contract rigs to be scrapped in the near-term. We have assumed high quality modern rigs, measured through the CIRA CCI scores and age of construction, to find new and meaningful contract as the cycle recovery takes place through 2024-25. All rigs that come off-contract in 2020-2021 are hot stacked for 6 months until the next contract is available	Rigs scheduled to come off-contract in 2020-21 see a 12-month delay in finding its next project. In addition to the already planned rig reductions, Valaris also scraps higher quality rigs that have been have been cold stacked long enough that it is not economically viable to re-start.	Rigs scheduled to come off-contract in 2020-21 see a 12-month delay in finding its next project. As in the Downside Case, all vessels currently cold stacked are eventually retired. Additionally, lower quality rigs coming off contract in the next 2 years are cold stacked and eventually scrapped as well as the market continues to suffer from a supply-demand imbalance.
Dayrates	Same for all cases. We are relying on the basic IRM framework (explained in the Industry section). The extrapolation into specific asset is based on the historical differentials seen in the Morgan Stanley reports in 2016-18. We note that current dayrates for the 6G and Jackups continue to average $150-200k/day and $65-95k/day, respectively. Our dayrate assumptions are inline with this slow recovery in rates, dayrate recovery for floaters and JUs are assumed to climb to $370k / $125k as utilization levels increase (continuing decline in marketable fleet as long stacked MODUs become old and obsolete coupled with exorbitant costs for reactivation)		
Utilization / revenue days active as a proportion of total days	Revenue efficiency assumed to be 97% in the Base Case – which is slightly below 2019 performance and below peak quarterly and annual efficiency of 100% and 99%, respectively. Valaris has evidenced strong uptime in the past and we assume will be able to maintain at the same level in the future	Utilization of the contracted rig assumed at 80% vs. 90% in Base Case for 2020-2022, then 85% through 2026. Uptime is assumed to be 95% as a sensitivity to the Base Case. Uptime has a high sensitivity to revenues and ability to maintain client relations, thus our sensitivity is adequate given long term historical uptime has been of ~98-99%	Utilization of the contracted rig assumed at 70% vs. 90% in Base Case for 2020-2023, then 80% through 2026. Uptime is assumed to be 94% as a sensitivity to the Base Case. Uptime has a high sensitivity to revenues and ability to maintain client relations, thus our sensitivity is adequate given long term historical uptime has been of ~98-99%
Operating Expenditures ("OpEx"):	Broadly in line with reported historical levels, we assume average OpEx of the drillships and jackups rigs to be ~$140k/day and ~$55k/day, respectively, plus annual U.S. inflation per IMF forecasts. SG&A costs as a % of revenue peak in the near-term as revenue decline, then fall back towards normalized levels. Shore costs are assumed to be ~$7.5MM per rig plus annual inflation, based on management commentary regarding its ARO fleet		
Stack Costs	Warm / Cold stack costs of $40k/day / $10k/day for drillships ands $20k/$5k for jackups in line with industry and Management guidance for floaters. Note that stacking can be done at much cheaper dayrate levels by clubbing pool of assets and moving them to more salubrious climes, but we do not account for this upside in our projections		
Reactivation Costs	Assumed to be on average $50MM per drillship and $15MM per JU after one year and $75MM and $30MM if stacking is greater than a year. Restart costs are highly dependent on technical requirement specifics and quality of warm/cold stack as well as the SPS classification certification required. E.g., Ensco in 2017 reactivated a (1yr+) preserve stack rig DS-4 with $28MM of expenses and $15MM in capital upgrades. On the higher end, Diamond Offshore in 2018 reactivated and retooled the victory class semi-sub, Endeavor (cold stacked since 3Q 2016), for a $200MM+ project spread over 2-years which includes spares, testing, demobilization and SPS. We assume this will be accounted for as a Capital Expenditure rather than an operating expense		
Capital Expenditures	Maintenance CapEx is calculated based on management guidance in the Base Case and on an implied per active rig basis for the Downside and Risk of Loss cases. Valaris has 2 rigs under construction at this time, due in 2022 and 2023, although the 2023 is assumed by management to be cancelled. We have assumed the 2022 delivery is cancelled in the Downside and Risk of Loss cases.		
Market Data	WACC assumed at 14%, which is higher by ~350 bps from the March 2019 valuation due to credit yields widening for OFS companies from ~10% to ~15%. The trading range of large offshore drillers through the last three years have trended higher with the markets supporting asset values despite material declines in NTM EBITDA. The recent three years have added a lot of noise to the trading multiples, given i) expectation of recovery and depressed EBITDAs ii) M&A action and iii) large moves on the oil market. The average trading multiples from 2004 to 2016 (12-years excluding recent period) stands at 6.6x as against the 7.7x seen in the recent 10-year period. Additionally using a 15-year data set and stripping out FY18-20 multiples, the average of the comps remains 6.6x, which is the figure we used in our Terminal Multiple calculation		

Summary of Assumptions







Comparable Companies

($MM)	Last Twelve Months			Enterprise	EV / Sales				EV / EBITDA				Ratings		Net Debt	Debt /	
Company Name	Sales	EBITDA	Margin	Value	LTM	2020E	2021E	2022E	LTM	2020E	2021E	2022E	S&P	Moody's	/ Cap	EBITDA	Asset β
Transocean Ltd.	3,140.0	924.0	29.4%	8,914.0	2.8x	2.9x	3.0x	2.7x	9.6x	10.1x	10.1x	8.1x	CCC	Caa1	92.1%	11.1x	1.04
Noble Corporation plc	1,305.4	488.9	37.5%	3,802.2	2.9x	3.9x	3.8x	3.5x	7.8x	16.9x	16.4x	12.7x	CCC-	Caa2	98.6%	7.9x	0.85
Diamond Offshore Drilling, Inc.	976.3	49.5	5.1%	1,509.3	1.5x	1.7x	1.8x	1.7x	30.5x	19.5x	22.2x	12.4x	D	NR	97.8%	39.9x	1.13
Seadrill Ltd.	1,388.0	226.0	16.3%	6,173.6	4.4x	5.1x	4.7x	3.7x	27.3x	38.2x	27.6x	13.9x	NR	NR	99.2%	31.8x	0.63
Median			22.9%		2.9x	3.4x	3.4x	3.1x	18.5x	18.2x	19.3x	12.6x			98.2%	21.4x	0.94

Source: FactSet, Seadrill Beta derived from the limited trading history (Jul'18 - New Listing)

Valaris PLC Class A	2,103.9	(17.5)	-0.8%	6,329.3	3.0x	3.5x	3.5x	2.9x	N/A	179.9x	39.3x	11.9x	CCC-	Caa3	98.8%	N/A	2.01

Note: All valuation metrics shown above for the subject company are derived from market data and may differ from the IRM valuation conclusions shown elsewhere in this presentation.

The peer set comprises the large listed offshore drillers with long operating history. Historically, the Offshore Driller peer set has traded in the range of 2.8x to 15.0x with a 15-year average of 7.7x and a standard deviation of 3.0x. Given the recent protracted period of weak earnings, multiples have traded above the 1-SD level for ~3-years. In order to normalize for this, we are considering the 2004-2016 period (strips out the 2017-2020 protracted trough period) to derive the terminal multiple, the adjusted period peer set reflects a 6.6x long term EV/EBITDA multiple. We are using the 6.6x long term average to show a run-rate, through-cycle multiple for Valaris

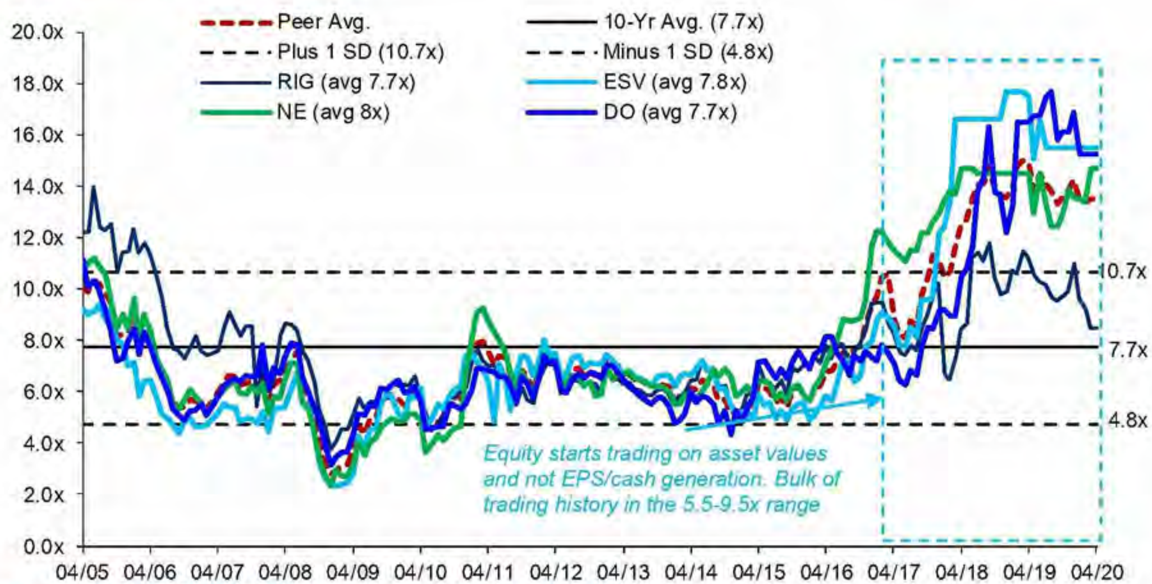
Company Descriptions

- **Transocean Ltd.** engages in the provision of offshore contract drilling services for oil and gas wells. It also owns and operates offshore drilling fleet such as ultra-deepwater, harsh-environment, deepwater, and midwater rigs. The company was founded in 1954 and is headquartered in Steinhausen, Switzerland
- **Valaris** Plc engages in the provision of offshore contract drilling services to the international oil and gas industry. It operates its through the following segments: Floaters, Jackups and Others. The Floaters segment includes drill ships and semisubmersible rigs. The Jackups segment offers contract drilling service. The Others segment consists of management services on rigs owned by third-parties. The company was founded on July 3, 1905 and is headquartered in London, the United Kingdom
- **Diamond Offshore** Drilling, Inc. engages in offshore drilling, which provides contract drilling services to the energy industry around the globe. The company's fleet of offshore drilling rigs consists of drillships and semisubmersibles. The company was founded on April 12, 1989 and is headquartered in Houston, TX.
- **Seadrill Ltd.** is an offshore drilling contractor providing offshore drilling services to the oil and gas industry. Its primary business is the ownership and operation of drillships, semi-submersible rigs, jack-up rigs, tender rigs for operations in shallow, mid, deep, and ultra deep-water areas, and in benign and harsh environments. The company operates through the following segments: Floaters, Jack-up Rigs, and Other. The Floaters segment offer services encompassing drilling, completion, and maintenance of offshore exploration and production wells. The Jack-up Rigs segment offers drilling services, completion and maintenance of offshore exploration and production wells. The Other segment engages in management services to third parties and related parties. Seadrill was founded on May 10, 2005 and is headquartered in Hamilton, Bermuda

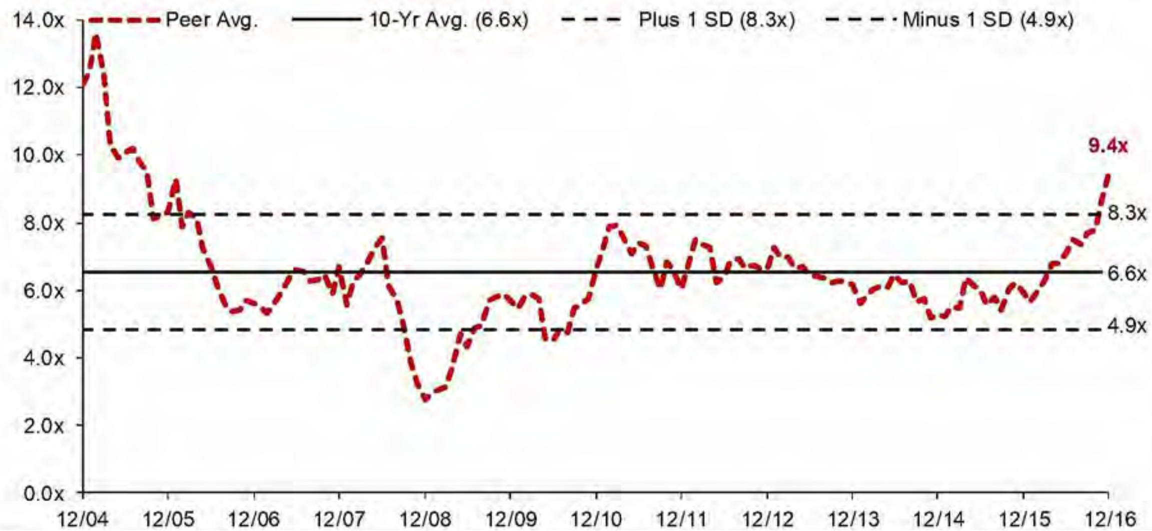
Source: FactSet. Market data as of 05/06/2020

Historical Forward Multiple Analysis

15-year EV/ NTM EBITDA Chart



12-year EV/ NTM EBITDA Chart excluding 2017-19



- We have tried to normalize the long-term trading multiples by stripping out the impact of the recent trough in forecasted EBITDA. The 15-year trading chart clearly underlines a multi-cycle periods with the period 2009-14 reflecting the most stable period of EBITDA generation
- The stripped period chart below shows a 12-year average of 6.6x with a max of 13.7x and min of 2.8x and a standard deviation of 1.8x
- We note that the following factors contribute strongly to the forward multiple for an offshore drilling
  - **Asset class / Fleet Strength:** type of Rig – Age, build year, technical specification, manufacturer, area of deployment (harsh or benign environment). i.e., a 2017 Harsh weather winterized Ultradeepwater Samsung, MDP, DP. Mutli-RAM 7G rig will be higher value vs. a shallow water CSSC Jackup
  - Backlog, Operating field and clientele quality diversification
  - Average dayrates, fleet utilization and operational uptime
  - Leverage and liquidity
- We use the peer set 2004-2016 average forward multiple of 6.6x as the terminal multiple in our DCF to reflect the long-run multiple. Note that the 2005-2020 average trading multiple for Valaris is 7.8x, while the 2005-17 average was 6.2x

Source: FactSet. Market data as of 05/05/20

WACC Analysis

WACC Calculation Inputs		
Date of Market Data		5/1/2020
Median Capital Structure of Comparables	Rating	62.35%
Target Capital Structure	CCC	70.00%
Debt Beta		0.30
Median of Comparables Asset Beta		1.16
Unlevered Asset Beta		1.16
Cost of Equity	**Low**	**High**
U.S. Risk Free Rate (20-Year CMT Bond)	1.04%	1.04%
Assumed Equity Market Risk Premium	6.50%	7.50%
Relevered Equity Beta	2.68	2.68
Unadjusted Cost of Equity	18.49%	21.17%
Country Risk Premium	0.00%	0.00%
Inflation Differential	0.00%	0.00%
Small Cap Risk Premium	0.00%	0.00%
Idiosyncratic Risk Premium	0.00%	0.00%
Adjusted Cost of Equity	**18.49%**	**21.17%**
Cost of Debt	**Low**	**High**
Expected Long-Term Yield	15.45%	15.45%
Country Risk Premium	0.00%	0.00%
Inflation Differential	0.00%	0.00%
Idiosyncratic Risk Premium	0.00%	0.00%
Adjusted Cost of Debt	15.45%	15.45%
Effective Marginal Tax Rate	24.1%	24.1%
Adjusted After-Tax Cost of Debt	**11.73%**	**11.73%**
Weighted Average Cost of Capital		**14.16%**

- Current market 10-year UST rate and 20-year US CMT rate for cost of debt and equity risk free rates, respectively
- Equity market premium range of 6.5%-7.5% per FSG guidance
- Asset beta of 1.16, based on the "Oilfield Services/Equipment" industry beta per NYU Stern research, as of January 2020
- Debt beta of 0.3 per FSG guidance for HY companies
- Target leverage of 70%, roughly in line with the median of the comparable companies
- Cost of debt sourced from Citi's Energy Service Index (May 1, 2020). The WACC analysis shown here assumes a credit rating of CCC in line with peers leveraged at approximately 70%
- No PRP assumed given offshore assets with majority assets operating in developed economies
- No inflation differential as all report in USD with majority of revenues, costs and investments made in USD
- For WACC, Valaris effective marginal tax rate of 24.5% is based on geographic operational mix, with 2019 revenues as a proxy
  - Valaris is a UK-domiciled company, subject to tax of the jurisdiction in which an asset is operating
  - Corporate tax rates were based on Deloitte 2019 corporate tax estimates
- Ensco's WACC has risen from ~10.6% in March 2019 to ~14.0% due to the significant rise in credit spreads for offshore drilling borrowers, from 7.0% to 14.9%
  - This change properly reflects the increased concern in the credit markets regarding the viability of high-yield offshore energy issuers, concerns regarding liquidity of Valaris (average yield of >100%) and its peers, and a historically weak oil price environment

Valuation Summary

Value Distribution Waterfall ($MM)	Management Case	Base Case	Downside Case	ROL Case	Expected Value Case
Probability Weighting		45%	30%	15%	90%
DCF Enterprise Value	$1,653.0	$1,707.2	$954.3	$426.3	$1,242.7
Structurally Unsecured Value	(260.7)	(269.2)	(150.5)	(67.2)	($196.0)
RCF Claim on ARO Drilling	117.9	117.9	117.9	117.9	117.9
Undrawn / Unavailable RCF	1,072.0	1,072.0	1,072.0	1,072.0	1,072.0
Expected Debtor-in-Possession Financing	(500.0)	(500.0)	(500.0)	(500.0)	(500.0)
Restructuring Costs	(199.5)	(199.5)	(199.5)	(199.5)	(199.5)
Total Distributable Value	$1,882.7	$1,928.3	$1,294.2	$849.5	$1,537.1
$1.6Bn Structurally Senior Revolver	$1,622.0	$1,622.0	$1,622.0	$1,622.0	$1,622.0
Total Structurally Senior Debt	$1,622.0	$1,622.0	$1,622.0	$1,622.0	$1,622.0
Structurally Senior Revolver $ Recovery	1,622.0	1,622.0	1,294.2	849.5	1,537.1
Structurally Senior Revolver % Recovery	100.0%	100.0%	79.8%	52.4%	94.8%
Residual Value after Structurally Senior RCF	$260.7	$306.3	$0.0	$0.0	$0.0
Residual Structurally Unsecured Claims	95.7	154.3	128.4	110.3	138.3
Total Distributable Value	$356.4	$460.6	$128.4	$110.3	$138.3
6.875% Senior Notes due 2020	$124.1	$124.1	$124.1	$124.1	$124.1
3.00% Exchangeable Notes due 2024	707.7	707.7	707.7	707.7	707.7
7.20% Senior Notes due 2027	111.7	111.7	111.7	111.7	111.7
7.875% Senior Notes due 2040	372.8	372.8	372.8	372.8	372.8
Total Guaranteed Debt	$1,316.3	$1,316.3	$1,316.3	$1,316.3	$1,316.3
Guaranteed Debt $ Recovery	356.4	460.6	128.4	110.3	138.3
Guaranteed Debt % Recovery	27.1%	35.0%	9.8%	8.4%	10.5%
Residual Value after Guaranteed Notes	$0.0	$0.0	$0.0	$0.0	$0.0
Residual Structurally Unsecured Claims	204.0	210.7	117.8	52.6	153.4
Total Distributable Value	$204.0	$210.7	$117.8	$52.6	$153.4
4.70% Senior Notes due 2021	$100.4	$100.4	$100.4	$100.4	$100.4
4.875% Senior Notes due 2022	601.2	601.2	601.2	601.2	601.2
4.75% Senior Notes due 2024	278.6	278.6	278.6	278.6	278.6
4.50% Senior Notes due 2024	302.0	302.0	302.0	302.0	302.0
8.00% Senior Notes due 2024	295.5	295.5	295.5	295.5	295.5
5.20% Senior Notes due 2025	331.8	331.8	331.8	331.8	331.8
7.375% Senior Notes due 2025	330.2	330.2	330.2	330.2	330.2
7.750% Senior Notes due 2026	987.7	987.7	987.7	987.7	987.7
5.40% Senior Notes due 2042	263.2	263.2	263.2	263.2	263.2
5.85% Senior Notes due 2044	269.1	269.1	269.1	269.1	269.1
5.75% Senior Notes due 2044	974.2	974.2	974.2	974.2	974.2
Total Unsecured Debt	$4,733.9	$4,733.9	$4,733.9	$4,733.9	$4,733.9
Unsecured Debt $ Recovery	204.0	210.7	117.8	52.6	153.4
Unsecured Debt % Recovery	4.3%	4.5%	2.5%	1.1%	3.2%
Residual Equity Value	$0.0	$0.0	$0.0	$0.0	$0.0
Implied Share Price[1]	$0.00	$0.00	$0.00	$0.00	$0.00

1. Assumes 198MM shares outstanding. Compares to Market Price of $0.37 and 52-week range of $0.30 - $13.16.

- While the structurally senior capital structure is fully covered in the Base Case, the Expected Value Case shows only 94.8% coverage, **therefore we recommend taking ~$12.3MM of reserves on our $235MM RCF hold**
  - Our RCF facility will be classified as 52.4% Substandard - Non Performing / 47.6% Doubtful
- All cases show complete impairment for unguaranteed, unsecured noteholders, a view also held by the company, which has estimated the fair value of its notes to be ~20% for the guaranteed notes and 17% for the unsecured notes (as of the latest 10-Q) and stated on its 1Q20 earnings release that a debt-for-equity swap is likely needed to resolve its capital structure issues
- We have included Valaris's 50% stake in ARO in our Total Distributable Value, valued as $120MM of 2020 EBITDA at the same multiple as Valaris (6.6x), less net debt of $700MM (see appendix for JV details)
  - IRM estimated a 2020 EBITDA for ARO by applying a ~30% discount to 2019 EBITDA of $170MM, based on the Saudi Aramco production cut from 12MM bpd to 8.5MM bpd
- We have given the company credit for its currently undrawn portion of its RCF (~$1.6Bn), less $550MM expected to be drawn upon a Chapter 11 filing in the June-August period
  - We have included $200MM of unavailable RCF due to the anti-cash hoarding language under the credit agreement
- We have accounted for an expected $500MM DIP facility to support the company through a 12 month bankruptcy case, which would prime our RCF in the capital structure
- Restructuring costs are calculated as 2.6% of total debt, based on previous cases of this size

Classification Analysis

Classification Review

Structurally Senior RCF Classification: Substandard Non-Performing / Doubtful

Classification Rationale

- **Enterprise Valuation:** Although the Base Case shows full coverage of our position in the capital structure, the Expected Value Case indicates only 94.8% of recovery
- **Weak Financial Performance and Near-Term Outlook:** The offshore drilling industry has suffered through weak economic conditions over the past 3 years, driven by historically low oil prices and the supply-demand imbalance between exploration opportunities and the number of active rigs. These twin pressures have resulted in shorter, lower-priced contracts for higher-quality rigs and forced companies to lay up lower-quality ones until conditions improve. Since FY16, PF Valaris (Ensco + Rowan + Atwood) has seen its revenues and EBITDA fall by 58% and 93%, respectively. Although Valaris has preserved cash flow during this period by reducing its CapEx, cash flows are expected to become negative over the next several years, as revenue is expected to continue to decline as oil prices have fallen ~50% through the first quarter of 2020
- **Unsustainable Capital Structure:** As performance has weakened, Valaris's leverage has risen considerably. LTM 03/31/2020 leverage, inclusive of recent RCF draws, is 64.6x compared to 4.4x at FYE16. Leverage is expected to continue to climb as performance worsens and the RCF is further drawn as a source of liquidity
- **Restructuring Event in the Next 3 Months:** Valaris has publicly and privately engaged in the process of a financial restructuring, acknowledging that is capital structure is not sustainable and that unsecured noteholders will likely see their claims converted into equity. The company, along with its financial and legal advisors, have engaged with the RCF lender group to support a restructuring transaction and potentially provide DIP financing through a bankruptcy process

Classification Triggers

Classification: Substandard Non-Performing / Doubtful

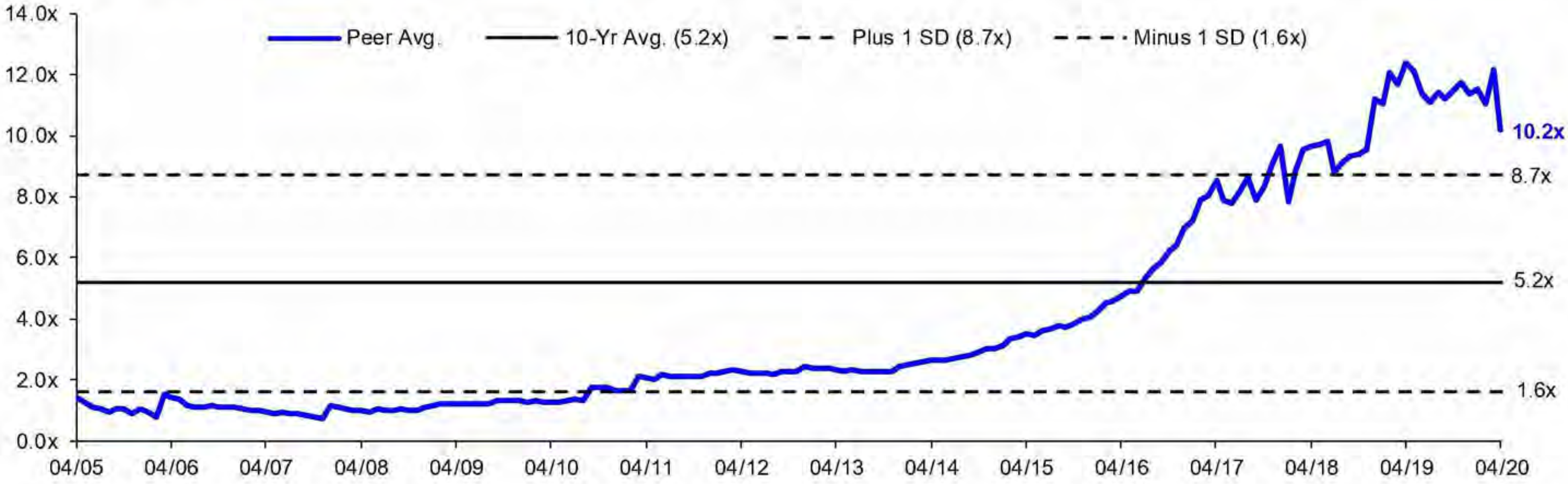
Triggers to Review for Upgrade to Substandard Performing

- No expectation of a payment default, bankruptcy filing, or restructuring within the next 12 months – **Not Met**
  - Management has privately and publicly acknowledge the need to restructure, including mentioning the need for a debt-for-equity swap. Management has hired financial and legal advisors to engage with lenders on an upcoming restructuring
  - *Rationale: Likely restructuring in the near-term would indicate a SS-NP classification*

Triggers to Review for Upgrade to Substandard Non-Performing

- Enterprise Valuation in the Downside Case is sufficient to cover Secured Debt – **Not Met**
  - The IRM Downside Case EV currently does not cover the $1.6Bn of Structurally Senior Debt
  - *Rationale: Coverage of Citi's exposure would indicate high probability of full repayment of Citi's exposure*

Historical Market Leverage



- Historically, the comparable companies have been levered Debt / EBITDA in the range of 1.3x to 12.4x, with a 15-year average of 5.2x and a standard deviation of 3.6x
- Given ability to finance rigs at LTV of 70%+ during mid-cycle and the long asset life of the rigs, Debt/EBITDA for cyclical asset heavy companies tends to show a skewed picture during the trough phase of the cycle. The longer period of review normalizes this trough period's significant escalation in leverage
- We peg normalized steady state leverage (low default risk, adequate liquidity and debt repayment capacity) for large diversified offshore drillers to be in the 3.5-4.0x range

Source: FactSet. Leverage beyond 10x omitted from data to normalize the range

Appendix A: Valuation Outputs

DCF - Base Case

Valaris 5-Year DCF Analysis ($MM)	Year Ended December 31, 2015	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P	2025P	'19-'25 CAGR
Total Revenue	**$3,934.4**	**$2,571.4**	**$1,843.0**	**$1,705.4**	**$2,229.7**	**$1,397.0**	**$1,410.4**	**$1,762.1**	**$1,916.9**	**$2,228.4**	**$2,494.7**	**1.6%**
Contract Drilling Expense	(1,869.6)	(1,301.0)	(1,189.5)	(1,319.4)	(1,936.8)	(1,432.7)	(1,369.8)	(1,519.8)	(1,588.2)	(1,755.6)	(1,886.3)	
SG&A	(78.2)	(61.2)	(116.6)	(61.1)	(100.9)	(87.0)	(88.9)	(91.0)	(93.1)	(95.2)	(97.4)	
Adjusted EBITDA	**$1,986.6**	**$1,209.2**	**$536.9**	**$324.9**	**$192.0**	**($122.8)**	**($48.3)**	**$151.3**	**$235.6**	**$377.6**	**$511.0**	**15.0%**
Margin %	50.5%	47.0%	29.1%	19.1%	8.6%	-8.8%	-3.4%	8.6%	12.3%	16.9%	20.5%	
Depreciation & Amortization	(572.5)	(445.3)	(444.8)	(478.9)	(609.7)	(671.6)	(617.0)	(620.0)	(611.0)	(606.0)	(608.0)	
Adjusted EBIT	**$1,414.1**	**$763.9**	**$92.1**	**($154.0)**	**($417.7)**	**($794.4)**	**($665.3)**	**($468.7)**	**($375.4)**	**($228.4)**	**($97.0)**	**NM**
Margin %	35.9%	29.7%	5.0%	-9.0%	-18.7%	-56.9%	-47.2%	-26.6%	-19.6%	-10.2%	-3.9%	
Cash Taxes @ 24.1%						0.0	0.0	0.0	0.0	0.0	0.0	
Unlevered Net Income						**($794.4)**	**($665.3)**	**($468.7)**	**($375.4)**	**($228.4)**	**($97.0)**	**NM**
Margin %						-56.9%	-47.2%	-26.6%	-19.6%	-10.2%	-3.9%	
Depreciation & Amortization						671.6	617.0	620.0	611.0	606.0	608.0	
Change in Net Working Capital						48.9	(13.6)	(85.2)	(37.2)	(70.3)	(61.9)	
Capital Expenditures						(137.0)	(143.0)	(326.0)	(127.0)	(140.0)	(159.0)	
Reactivation Costs						0.0	0.0	0.0	(90.0)	(300.0)	0.0	
Restructuring Costs						(70.0)	(21.0)	(9.0)	0.0	0.0	0.0	
Asset Sales						42.0	0.0	1.0	0.0	1.0	0.0	
Other						(25.0)	10.0	(7.0)	(12.0)	(9.0)	(5.0)	
Unlevered Free Cash Flow						**($263.9)**	**($216.0)**	**($274.9)**	**($30.5)**	**($140.7)**	**$285.1**	

Terminal Value - EBITDA Multiple Method		
Terminal Forward EBITDA (2026)	$638.5	
Forward EBITDA Multiple	6.6x	
Terminal Value in 2025	**$4,218.9**	
PV of 2020-2025 Cash Flows	($587.1)	-34.4%
PV of Terminal Value	2,294.3	134.4%
Cash Adjustments[1]	0.0	0.0%
Enterprise Value	**$1,707.2**	**100.0%**
EV / 2023P EBITDA	**7.2x**	

Discount Rate	Enterprise Value Terminal Forward EBITDA Multiple 5.6x	6.1x	6.6x	7.1x	7.6x
13.2%	$1,431.5	$1,611.4	$1,791.2	$1,971.0	$2,150.9
13.7%	1,395.3	1,572.0	1,748.7	1,925.4	2,102.1
14.2%	1,359.9	1,533.5	1,707.2	1,880.8	2,054.4
14.7%	1,325.3	1,495.9	1,666.5	1,837.1	2,007.7
15.2%	1,291.5	1,459.1	1,626.8	1,794.4	1,962.1

1. Cash Adjustments calculated as $184.9MM cash on hand less assumed appropriate minimum operating cash balance (35% sales), if amount is greater than zero.

DCF - Downside Case

Valaris 5-Year DCF Analysis ($MM)	2015	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P	2025P	'19-'25 CAGR
	Year Ended December 31,											
Total Revenue	**$3,934.4**	**$2,571.4**	**$1,843.0**	**$1,705.4**	**$2,229.7**	**$1,345.9**	**$1,028.8**	**$1,323.1**	**$1,624.9**	**$1,740.1**	**$1,820.7**	**(2.9%)**
Contract Drilling Expense	(1,869.6)	(1,301.0)	(1,189.5)	(1,319.4)	(1,936.8)	(1,411.8)	(1,109.6)	(1,198.0)	(1,354.2)	(1,402.7)	(1,429.9)	
SG&A	(78.2)	(61.2)	(116.6)	(61.1)	(100.9)	(87.0)	(88.9)	(91.0)	(93.1)	(95.2)	(97.4)	
Adjusted EBITDA	**$1,986.6**	**$1,209.2**	**$536.9**	**$324.9**	**$192.0**	**($152.9)**	**($169.7)**	**$34.1**	**$177.6**	**$242.2**	**$293.4**	**6.2%**
Margin %	50.5%	47.0%	29.1%	19.1%	8.6%	-11.4%	-16.5%	2.6%	10.9%	13.9%	16.1%	
Depreciation & Amortization	(572.5)	(445.3)	(444.8)	(478.9)	(609.7)	(671.6)	(617.0)	(620.0)	(611.0)	(606.0)	(608.0)	
Adjusted EBIT	**$1,414.1**	**$763.9**	**$92.1**	**($154.0)**	**($417.7)**	**($824.5)**	**($786.7)**	**($585.9)**	**($433.4)**	**($363.8)**	**($314.6)**	**NM**
Margin %	35.9%	29.7%	5.0%	-9.0%	-18.7%	-61.3%	-76.5%	-44.3%	-26.7%	-20.9%	-17.3%	
Cash Taxes @ 24.1%						0.0	0.0	0.0	0.0	0.0	0.0	
Unlevered Net Income						**($824.5)**	**($786.7)**	**($585.9)**	**($433.4)**	**($363.8)**	**($314.6)**	**NM**
Margin %						-61.3%	-76.5%	-44.3%	-26.7%	-20.9%	-17.3%	
Depreciation & Amortization						671.6	617.0	620.0	611.0	606.0	608.0	
Change in Net Working Capital						61.4	64.3	(73.3)	(65.3)	(26.6)	(19.6)	
Capital Expenditures						(119.0)	(106.7)	(89.5)	(111.5)	(112.0)	(127.2)	
Reactivation Costs						0.0	0.0	0.0	0.0	0.0	0.0	
Restructuring Costs						(70.0)	(21.0)	(9.0)	0.0	0.0	0.0	
Asset Sales						42.0	0.0	1.0	0.0	1.0	0.0	
Other						(25.0)	10.0	(7.0)	(12.0)	(9.0)	(5.0)	
Unlevered Free Cash Flow						**($263.5)**	**($223.2)**	**($143.7)**	**($11.1)**	**$95.6**	**$141.6**	

Terminal Value - EBITDA Multiple Method		
Terminal Forward EBITDA (2026)	$374.7	
Forward EBITDA Multiple	6.6x	
Terminal Value in 2025	**$2,475.8**	
PV of 2020-2025 Cash Flows	($392.1)	-41.1%
PV of Terminal Value	1,346.4	141.1%
Cash Adjustments[1]	0.0	0.0%
Enterprise Value	**$954.3**	**100.0%**
EV / 2023P EBITDA	**5.4x**	

Discount Rate	Enterprise Value – Terminal Forward EBITDA Multiple 5.6x	6.1x	6.6x	7.1x	7.6x
13.2%	$794.8	$900.3	$1,005.9	$1,111.4	$1,216.9
13.7%	772.4	876.1	979.8	1,083.5	1,187.2
14.2%	750.5	852.4	954.3	1,056.1	1,158.0
14.7%	729.0	829.2	929.3	1,029.4	1,129.5
15.2%	708.1	806.5	904.8	1,003.2	1,101.6

1. Cash Adjustments calculated as $184.9MM cash on hand less assumed appropriate minimum operating cash balance (35% sales), if amount is greater than zero.

DCF – Risk of Loss Case

Valaris 5-Year DCF Analysis ($MM)	2015	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P	2025P	'19-'25 CAGR
Total Revenue	$3,934.4	$2,571.4	$1,843.0	$1,705.4	$2,229.7	$1,294.0	$965.1	$1,113.8	$1,261.9	$1,475.2	$1,592.3	(4.7%)
Contract Drilling Expense	(1,869.6)	(1,301.0)	(1,189.5)	(1,319.4)	(1,936.8)	(1,344.2)	(1,039.5)	(1,047.1)	(1,102.4)	(1,228.8)	(1,286.3)	
SG&A	(78.2)	(61.2)	(116.6)	(61.1)	(100.9)	(87.0)	(88.9)	(91.0)	(93.1)	(95.2)	(97.4)	
Adjusted EBITDA	$1,986.6	$1,209.2	$536.9	$324.9	$192.0	($137.2)	($163.4)	($24.4)	$66.4	$151.2	$208.6	1.2%
Margin %	50.5%	47.0%	29.1%	19.1%	8.6%	-10.6%	-16.9%	-2.2%	5.3%	10.2%	13.1%	
Depreciation & Amortization	(572.5)	(445.3)	(444.8)	(478.9)	(609.7)	(671.6)	(617.0)	(620.0)	(611.0)	(606.0)	(608.0)	
Adjusted EBIT	$1,414.1	$763.9	$92.1	($154.0)	($417.7)	($808.8)	($780.4)	($644.4)	($544.6)	($454.8)	($399.4)	NM
Margin %	35.9%	29.7%	5.0%	-9.0%	-18.7%	-62.5%	-80.9%	-57.9%	-43.2%	-30.8%	-25.1%	
Cash Taxes @ 24.1%						0.0	0.0	0.0	0.0	0.0	0.0	
Unlevered Net Income						($808.8)	($780.4)	($644.4)	($544.6)	($454.8)	($399.4)	NM
Margin %						-62.5%	-80.9%	-57.9%	-43.2%	-30.8%	-25.1%	
Depreciation & Amortization						671.6	617.0	620.0	611.0	606.0	608.0	
Change in Net Working Capital						67.1	66.8	(42.6)	(35.3)	(43.7)	(25.8)	
Capital Expenditures						(119.0)	(106.7)	(89.5)	(111.5)	(112.0)	(127.2)	
Reactivation Costs						0.0	0.0	0.0	0.0	0.0	0.0	
Restructuring Costs						(70.0)	(21.0)	(9.0)	0.0	0.0	0.0	
Asset Sales						42.0	0.0	1.0	0.0	1.0	0.0	
Other						(25.0)	10.0	(7.0)	(12.0)	(9.0)	(5.0)	
Unlevered Free Cash Flow						($242.1)	($214.3)	($171.5)	($92.4)	($12.5)	$50.6	

Year Ended December 31,

Terminal Value - EBITDA Multiple Method		
Terminal Forward EBITDA (2026)	$279.5	
Forward EBITDA Multiple	6.6x	
Terminal Value in 2025	**$1,847.1**	
PV of 2020-2025 Cash Flows	($578.1)	-135.6%
PV of Terminal Value	1,004.4	235.6%
Cash Adjustments[1]	0.0	0.0%
Enterprise Value	**$426.3**	**100.0%**
EV / 2023P EBITDA	**6.4x**	

Enterprise Value

Discount Rate	Terminal Forward EBITDA Multiple 5.6x	6.1x	6.6x	7.1x	7.6x
13.2%	$304.0	$382.7	$461.5	$540.2	$618.9
13.7%	289.0	366.3	443.7	521.0	598.4
14.2%	274.3	350.3	426.3	502.3	578.3
14.7%	259.9	334.6	409.3	484.0	558.7
15.2%	245.9	319.3	392.7	466.1	539.5

1. Cash Adjustments calculated as $184.9MM cash on hand less assumed appropriate minimum operating cash balance (35% sales), if amount is greater than zero.

Appendix B: Levered FCF Forecasts

Levered FCF Forecasts – Base Case

Summary Projections ($MM) - Base Case	2017	2018	2019	2020P	2021P	2022P	2023P	2024P	2025P	2026P
Total Revenue[1]	**$1,843**	**$1,705**	**$2,230**	**$1,397**	**$1,410**	**$1,762**	**$1,917**	**$2,228**	**$2,495**	**$2,640**
% Growth	*(28.3%)*	*(7.5%)*	*30.7%*	*(37.3%)*	*1.0%*	*24.9%*	*8.8%*	*16.3%*	*11.9%*	*5.8%*
COGS	(1,190)	(1,319)	(1,937)	(1,433)	(1,370)	(1,520)	(1,588)	(1,756)	(1,886)	(1,902)
SG&A	(117)	(61)	(101)	(87)	(89)	(91)	(93)	(95)	(97)	(100)
Total Adj. EBITDA	**$537**	**$325**	**$192**	**($123)**	**($48)**	**$151**	**$236**	**$378**	**$511**	**$639**
% Margin	*29.1%*	*19.1%*	*8.6%*	*(8.8%)*	*(3.4%)*	*8.6%*	*12.3%*	*16.9%*	*20.5%*	*24.2%*
% Growth	*(55.6%)*	*(39.5%)*	*(40.9%)*	*(163.9%)*	*(60.6%)*	*(413.0%)*	*55.7%*	*60.3%*	*35.3%*	*24.9%*
Cash Interest	(200)	(233)	(428)	(373)	(376)	(405)	(433)	(461)	(485)	(491)
Cash Taxes	(63)	(58)	(128)	0	0	0	0	0	0	0
(Increase)/Decrease in Working Capital	65	(18)	(28)	49	(14)	(85)	(37)	(70)	(62)	(42)
Transaction Costs	0	0	(108)	(70)	(21)	(9)	0	0	0	0
Other[2]	(80)	(72)	232	17	10	(6)	(12)	(8)	(5)	(5)
Levered CFO (Core Operations)	**$259**	**($56)**	**($269)**	**($500)**	**($449)**	**($354)**	**($247)**	**($162)**	**($41)**	**$100**
Maintenance CapEx	(107)	(86)	(184)	(128)	(126)	(210)	(127)	(140)	(159)	(159)
Growth CapEx	(430)	(341)	(43)	(9)	(17)	(116)	0	0	0	0
Reactivation Costs				0	0	0	(90)	(300)	0	0
Total Capital Expenditures	**(537)**	**(427)**	**(227)**	**(137)**	**(143)**	**(326)**	**(217)**	**(440)**	**(159)**	**(159)**
Levered FCF (Core Operations)	**($277)**	**($482)**	**($496)**	**($637)**	**($592)**	**($680)**	**($464)**	**($602)**	**($200)**	**($59)**
Change in Other LT Assets				0	0	0	0	0	0	0
Change in Other LT Liabilities				0	0	0	0	0	0	0
Acquisitions				0	0	0	0	0	0	0
Dividends				0	0	0	0	0	0	0
Levered FCF before Debt Repayment				**($637)**	**($592)**	**($680)**	**($464)**	**($602)**	**($200)**	**($59)**
Cumulative Levered FCF before Debt Repayment (Beginning 1Q20)				***($396)***	***($988)***	***($1,668)***	***($2,131)***	***($2,733)***	***($2,933)***	***($2,992)***
% of Total Debt Amortized				*-6.2%*	*-15.4%*	*-25.9%*	*-33.1%*	*-42.5%*	*-45.6%*	*-46.5%*
Funded Revolver Draw / (Repayment)[1]				648	592	679	464	601	200	59
Mandatory Debt Issuance / (Repayment)				0	0	0	0	0	0	0
RDC Cash Acquired				0	0	0	0	0	0	0
Discretionary Debt Issuance / (Repayment)				0	0	0	0	0	0	0
Additional Paid-In Capital				0	0	0	0	0	0	0
Change in Cash Balance				**$11**	**$0**	**($1)**	**$0**	**($1)**	**$0**	**$0**
Cumulative Change in Cash Balance				***$11***	***$11***	***$10***	***$10***	***$9***	***$9***	***$9***
Revolver Outstanding/ Funding Gap[3]				$648	$1,240	$1,919	$2,382	$2,983	$3,183	$3,242
Unsecured Senior Notes				6,048	6,048	6,048	6,048	6,048	6,048	6,048
Total Debt			**$6,430**	**$6,696**	**$7,288**	**$7,967**	**$8,431**	**$9,032**	**$9,231**	**$9,290**
Beginning Cash Balance				**$97**	**$150**	**$150**	**$150**	**$150**	**$150**	**$150**
Change in Cash Balance				11	0	(1)	0	(1)	0	0
Ending Cash Balance				**$108**	**$150**	**$149**	**$150**	**$149**	**$150**	**$150**
Credit Metrics										
Total Debt / Adj. EBITDA				-54.5x	-150.8x	52.7x	35.8x	23.9x	18.1x	14.6x
Net Debt / Adj. EBITDA				-53.7x	-147.6x	51.7x	35.1x	23.5x	17.8x	14.3x
Adj. EBITDA / Interest Expense				-0.3x	-0.1x	0.4x	0.5x	0.8x	1.1x	1.3x
(Adj. EBITDA - CapEx) / Cash Interest Expense				-0.7x	-0.5x	-0.4x	0.0x	-0.1x	0.7x	1.0x
Total Debt Repayment Capacity Ratio[4]				-0.1x	0.0x	0.1x	0.2x	0.2x	0.4x	0.5x
Fixed Charge Coverage Ratio[5]				-0.2x	-0.1x	0.2x	0.4x	0.4x	0.8x	1.0x

1. Total revenue excludes early termination fees
2. Includes SHI termination payment received on December 30, 2019
3. Represents Revolver Draw/ Repayment or Funding Gap and assumed minimum appropriate operating cash level of $150MM, per management guidance
4. Total Debt Repayment Capacity and Senior Secured Debt Repayment Capacity Ratios calculated as Adj. EBITDA / (Cash Interest + Cash Taxes + Dividends + CapEx + 7% of Total Debt or 14% of Senior Secured Debt)
5. Fixed Charge Coverage Ratio calculated as Adjusted EBITDA/(Cash Interest + CapEx + Cash Taxes + Dividends + Current Maturities of Long Term Debt)

Levered FCF Forecasts – Downside Case

Summary Projections ($MM) - Downside Case	2017	2018	2019	2020P	2021P	2022P	2023P	2024P	2025P	2026P
Total Revenue[1]	**$1,843**	**$1,705**	**$2,230**	**$1,346**	**$1,029**	**$1,323**	**$1,625**	**$1,740**	**$1,821**	**$1,916**
% Growth	*(28.3%)*	*(7.5%)*	*30.7%*	*(39.6%)*	*(23.6%)*	*28.6%*	*22.8%*	*7.1%*	*4.6%*	*5.2%*
COGS	(1,190)	(1,319)	(1,937)	(1,412)	(1,110)	(1,198)	(1,354)	(1,403)	(1,430)	(1,442)
SG&A	(117)	(61)	(101)	(87)	(89)	(91)	(93)	(95)	(97)	(100)
Total Adj. EBITDA	**$537**	**$325**	**$192**	**($153)**	**($170)**	**$34**	**$178**	**$242**	**$293**	**$375**
% Margin	*29.1%*	*19.1%*	*8.6%*	*(11.4%)*	*(16.5%)*	*2.6%*	*10.9%*	*13.9%*	*16.1%*	*19.6%*
% Growth	*(55.6%)*	*(39.5%)*	*(40.9%)*	*(179.6%)*	*11.0%*	*(120.1%)*	*420.4%*	*36.4%*	*21.1%*	*27.7%*
Cash Interest	(200)	(233)	(428)	(373)	(376)	(402)	(427)	(448)	(468)	(483)
Cash Taxes	(63)	(58)	(128)	0	0	0	0	0	0	0
(Increase)/Decrease in Working Capital	65	(18)	(28)	61	64	(73)	(65)	(27)	(20)	(26)
Transaction Costs	0	0	(108)	(70)	(21)	(9)	0	0	0	0
Other[2]	(80)	(72)	232	17	10	(6)	(12)	(8)	(5)	(5)
Levered CFO (Core Operations)	**$259**	**($56)**	**($269)**	**($518)**	**($492)**	**($457)**	**($326)**	**($240)**	**($199)**	**($139)**
Maintenance CapEx	(107)	(86)	(184)	(119)	(107)	(90)	(112)	(112)	(127)	(127)
Growth CapEx	(430)	(341)	(43)	0	0	0	0	0	0	0
Reactivation Costs				0	0	0	0	0	0	0
Total Capital Expenditures	**(537)**	**(427)**	**(227)**	**(119)**	**(107)**	**(90)**	**(112)**	**(112)**	**(127)**	**(127)**
Levered FCF (Core Operations)	**($277)**	**($482)**	**($496)**	**($637)**	**($599)**	**($546)**	**($438)**	**($352)**	**($327)**	**($267)**
Change in Other LT Assets				0	0	0	0	0	0	0
Change in Other LT Liabilities				0	0	0	0	0	0	0
Acquisitions				0	0	0	0	0	0	0
Dividends				0	0	0	0	0	0	0
Levered FCF before Debt Repayment				**($637)**	**($599)**	**($546)**	**($438)**	**($352)**	**($327)**	**($267)**
Cumulative Levered FCF before Debt Repayment (Beginning 1Q20)				***($396)***	***($995)***	***($1,541)***	***($1,979)***	***($2,331)***	***($2,658)***	***($2,924)***
% of Total Debt Amortized				*-6.2%*	*-15.5%*	*-24.0%*	*-30.8%*	*-36.3%*	*-41.3%*	*-45.5%*
Funded Revolver Draw / (Repayment)[1]				647	599	545	438	351	327	267
Mandatory Debt Issuance / (Repayment)				0	0	0	0	0	0	0
RDC Cash Acquired				0	0	0	0	0	0	0
Discretionary Debt Issuance / (Repayment)				0	0	0	0	0	0	0
Additional Paid-In Capital				0	0	0	0	0	0	0
Change in Cash Balance				**$11**	**$0**	**($1)**	**$0**	**($1)**	**$0**	**$0**
Cumulative Change in Cash Balance				***$11***	***$11***	***$10***	***$10***	***$9***	***$9***	***$9***
Revolver Outstanding/ Funding Gap[3]				$647	$1,247	$1,792	$2,229	$2,581	$2,907	$3,174
Unsecured Senior Notes				6,048	6,048	6,048	6,048	6,048	6,048	6,048
Total Debt			**$6,430**	**$6,696**	**$7,295**	**$7,840**	**$8,278**	**$8,629**	**$8,956**	**$9,222**
Beginning Cash Balance				**$97**	**$150**	**$150**	**$150**	**$150**	**$150**	**$150**
Change in Cash Balance				11	0	(1)	0	(1)	0	0
Ending Cash Balance				**$108**	**$150**	**$149**	**$150**	**$149**	**$150**	**$150**
Credit Metrics										
Total Debt / Adj. EBITDA				**-43.8x**	**-43.0x**	**229.7x**	**46.6x**	**35.6x**	**30.5x**	**24.6x**
Net Debt / Adj. EBITDA				**-43.1x**	**-42.1x**	**225.3x**	**45.8x**	**35.0x**	**30.0x**	**24.2x**
Adj. EBITDA / Interest Expense				**-0.4x**	**-0.5x**	**0.1x**	**0.4x**	**0.5x**	**0.6x**	**0.8x**
(Adj. EBITDA - CapEx) / Cash Interest Expense				**-0.7x**	**-0.7x**	**-0.1x**	**0.2x**	**0.3x**	**0.4x**	**0.5x**
Total Debt Repayment Capacity Ratio[4]				**-0.2x**	**-0.2x**	**0.0x**	**0.2x**	**0.2x**	**0.2x**	**0.3x**
Fixed Charge Coverage Ratio[5]				**-0.3x**	**-0.4x**	**0.1x**	**0.3x**	**0.4x**	**0.5x**	**0.6x**

1. Total revenue excludes early termination fees
2. Includes SHI termination payment received on December 30, 2019
3. Represents Revolver Draw/ Repayment or Funding Gap and assumed minimum appropriate operating cash level of $150MM, per management guidance
4. Total Debt Repayment Capacity and Senior Secured Debt Repayment Capacity Ratios calculated as Adj. EBITDA / (Cash Interest + Cash Taxes + Dividends + CapEx + 7% of Total Debt or 14% of Senior Secured Debt)
5. Fixed Charge Coverage Ratio calculated as Adjusted EBITDA/(Cash Interest + CapEx + Cash Taxes + Dividends + Current Maturities of Long Term Debt)

Levered FCF Forecasts – RoL Case

Summary Projections ($MM) - ROL Case	2017	2018	2019	2020P	2021P	2022P	2023P	2024P	2025P	2026P
Total Revenue[1]	**$1,843**	**$1,705**	**$2,230**	**$1,294**	**$965**	**$1,114**	**$1,262**	**$1,475**	**$1,592**	**$1,676**
% Growth	*(28.3%)*	*(7.5%)*	*30.7%*	*(42.0%)*	*(25.4%)*	*15.4%*	*13.3%*	*16.9%*	*7.9%*	*5.3%*
COGS	(1,190)	(1,319)	(1,937)	(1,344)	(1,039)	(1,047)	(1,102)	(1,229)	(1,286)	(1,297)
SG&A	(117)	(61)	(101)	(87)	(89)	(91)	(93)	(95)	(97)	(100)
Total Adj. EBITDA	**$537**	**$325**	**$192**	**($137)**	**($163)**	**($24)**	**$66**	**$151**	**$209**	**$280**
% Margin	*29.1%*	*19.1%*	*8.6%*	*(10.6%)*	*(16.9%)*	*(2.2%)*	*5.3%*	*10.2%*	*13.1%*	*16.7%*
% Growth	*(55.6%)*	*(39.5%)*	*(40.9%)*	*(171.5%)*	*19.1%*	*(85.1%)*	*(372.7%)*	*127.6%*	*37.9%*	*34.0%*
Cash Interest	(200)	(233)	(428)	(373)	(375)	(402)	(428)	(455)	(480)	(500)
Cash Taxes	(63)	(58)	(128)	0	0	0	0	0	0	0
(Increase)/Decrease in Working Capital	65	(18)	(28)	67	67	(43)	(35)	(44)	(26)	(23)
Transaction Costs	0	0	(108)	(70)	(21)	(9)	0	0	0	0
Other[2]	(80)	(72)	232	17	10	(6)	(12)	(8)	(5)	(5)
Levered CFO (Core Operations)	**$259**	**($56)**	**($269)**	**($496)**	**($482)**	**($484)**	**($409)**	**($355)**	**($302)**	**($249)**
Maintenance CapEx	(107)	(86)	(184)	(119)	(107)	(90)	(112)	(112)	(127)	(127)
Growth CapEx	(430)	(341)	(43)	0	0	0	0	0	0	0
Reactivation Costs				0	0	0	0	0	0	0
Total Capital Expenditures	**(537)**	**(427)**	**(227)**	**(119)**	**(107)**	**(90)**	**(112)**	**(112)**	**(127)**	**(127)**
Levered FCF (Core Operations)	**($277)**	**($482)**	**($496)**	**($615)**	**($589)**	**($573)**	**($521)**	**($467)**	**($430)**	**($376)**
Change in Other LT Assets				0	0	0	0	0	0	0
Change in Other LT Liabilities				0	0	0	0	0	0	0
Acquisitions				0	0	0	0	0	0	0
Dividends				0	0	0	0	0	0	0
Levered FCF before Debt Repayment				**($615)**	**($589)**	**($573)**	**($521)**	**($467)**	**($430)**	**($376)**
Cumulative Levered FCF before Debt Repayment (Beginning 1Q20)				***($374)***	***($963)***	***($1,536)***	***($2,056)***	***($2,524)***	***($2,953)***	***($3,329)***
% of Total Debt Amortized				*-5.8%*	*-15.0%*	*-23.9%*	*-32.0%*	*-39.2%*	*-45.9%*	*-51.8%*
Funded Revolver Draw / (Repayment)[1]				625	589	572	521	466	430	376
Mandatory Debt Issuance / (Repayment)				0	0	0	0	0	0	0
RDC Cash Acquired				0	0	0	0	0	0	0
Discretionary Debt Issuance / (Repayment)				0	0	0	0	0	0	0
Additional Paid-In Capital				0	0	0	0	0	0	0
Change in Cash Balance				**$11**	**$0**	**($1)**	**$0**	**($1)**	**$0**	**$0**
Cumulative Change in Cash Balance				***$11***	***$11***	***$10***	***$10***	***$9***	***$9***	***$9***
Revolver Outstanding/ Funding Gap[3]				$625	$1,215	$1,787	$2,307	$2,773	$3,203	$3,579
Unsecured Senior Notes				6,048	6,048	6,048	6,048	6,048	6,048	6,048
Total Debt			$6,430	**$6,674**	**$7,263**	**$7,835**	**$8,356**	**$8,822**	**$9,251**	**$9,627**
Beginning Cash Balance				**$97**	**$150**	**$150**	**$150**	**$150**	**$150**	**$150**
Change in Cash Balance				11	0	(1)	0	(1)	0	0
Ending Cash Balance				**$108**	**$150**	**$149**	**$150**	**$149**	**$150**	**$150**
Credit Metrics										
Total Debt / Adj. EBITDA				**-48.6x**	**-44.5x**	**-321.7x**	**125.8x**	**58.3x**	**44.4x**	**34.4x**
Net Debt / Adj. EBITDA				**-47.9x**	**-43.5x**	**-315.6x**	**123.5x**	**57.4x**	**43.6x**	**33.9x**
Adj. EBITDA / Interest Expense				**-0.4x**	**-0.4x**	**-0.1x**	**0.2x**	**0.3x**	**0.4x**	**0.6x**
(Adj. EBITDA - CapEx) / Cash Interest Expense				**-0.7x**	**-0.7x**	**-0.3x**	**-0.1x**	**0.1x**	**0.2x**	**0.3x**
Total Debt Repayment Capacity Ratio[4]				**-0.1x**	**-0.2x**	**0.0x**	**0.1x**	**0.1x**	**0.2x**	**0.2x**
Fixed Charge Coverage Ratio[5]				**-0.3x**	**-0.3x**	**0.0x**	**0.1x**	**0.3x**	**0.3x**	**0.4x**

1. Total revenue excludes early termination fees
2. Includes SHI termination payment received on December 30, 2019
3. Represents Revolver Draw/ Repayment or Funding Gap and assumed minimum appropriate operating cash level of $150MM, per management guidance
4. Total Debt Repayment Capacity and Senior Secured Debt Repayment Capacity Ratios calculated as Adj. EBITDA / (Cash Interest + Cash Taxes + Dividends + CapEx + 7% of Total Debt or 14% of Senior Secured Debt)
5. Fixed Charge Coverage Ratio calculated as Adjusted EBITDA/(Cash Interest + CapEx + Cash Taxes + Dividends + Current Maturities of Long Term Debt)

Appendix C: ARO Drilling

ARO Drilling Financing Considerations

VALARIS

Valaris operates eight jackups offshore Saudi Arabia outside of ARO Drilling joint venture

50% Ownership

~$450M Shareholder Notes Receivable

أرامكو السعودية
saudi aramco

50% Ownership

~$450M Shareholder Notes Receivable

ARO DRILLING
أرامكو روان للحفر

Leased Rigs (9)

- Three-year contracts; day rates set by an agreed pricing mechanism
- Valaris receives bareboat charter fee based on % of rig-level EBITDA
- ~$190M of bareboat charter revenue backlog to Valaris as of September 30, 2019 (no associated operating expense to Valaris)

Owned Rigs (7)

- Rigs contracted for three-year terms
- Renewed and re-priced every three years for at least an aggregate of 15 years

Newbuild Rigs (20)

- Initial 8-year contracts; day rate set by an EBITDA payback mechanism[1]
- Further 8-year contracts; day rate set by a market pricing mechanism and re-priced every three years
- Preference given for future contracts thereafter

- Expected to generate ~$170M EBITDA in 2019
- 50% attributable to Valaris (not reflected in Valaris financials)

- Rigs contribute to ARO Drilling results, of which Valaris recognizes 50% of net income

(1) Down payment on each new build rig is no more than 25% before delivery. Illustrative in-service newbuild rig capital cost of $200 million would provide an average day rate of ~$165K/day for the initial eight-year contract, based on cash operating costs of $45K/day + shorebase overhead allocation of $7.5 million per year

ARO Drilling Overview

Shareholder Notes

- ~$900M with 10-year maturities
- Issued as consideration for cash and rigs contributed by joint venture partners in 2017 and 2018
- Interest rate is LIBOR +2%; interest can be either paid in cash or PIK'd on an annual basis at discretion of ARO Drilling Board
- No third-party debt

Cash & Distributions

- ARO Drilling had $453M of current assets as of September 30, 2019[1]
- In total, ARO Drilling is expected to generate ~$170M EBITDA during 2019
- Currently ARO has a cash balance of $280 million
- Excess cash can be distributed to joint venture partners at the discretion of ARO Drilling Board

Future Growth

- 20-rig newbuild program over ten years
- Opportunities for external financing given long-term nature of contracts backed by strong counterparty
- Expected to be financed by ARO cash flows or external financing

Note: Cash balance as of April 2020 is ~$200MM.
(1) From Valaris 3Q19 results conference call

***IRS Circular 230 Disclosure:* Citigroup Inc. and its affiliates do not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended or written to be used, and cannot be used or relied upon, by you for the purpose of avoiding any tax penalties and (ii) may have been written in connection with the "promotion or marketing" of any transaction contemplated hereby ("Transaction"). Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.**

In any instance where distribution of this communication is subject to the rules of the US Commodity Futures Trading Commission ("CFTC"), this communication constitutes an invitation to consider entering into a derivatives transaction under U.S. CFTC Regulations §§ 1.71 and 23.605, where applicable, but is not a binding offer to buy/sell any financial instrument.

Any terms set forth herein are intended for discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This presentation is not a commitment to lend, syndicate a financing, underwrite or purchase securities, or commit capital nor does it obligate us to enter into such a commitment, nor are we acting as a fiduciary to you. By accepting this presentation, subject to applicable law or regulation, you agree to keep confidential the information contained herein and the existence of and proposed terms for any Transaction.

Prior to entering into any Transaction, you should determine, without reliance upon us or our affiliates, the economic risks and merits (and independently determine that you are able to assume these risks) as well as the legal, tax and accounting characterizations and consequences of any such Transaction. In this regard, by accepting this presentation, you acknowledge that (a) we are not in the business of providing (and you are not relying on us for) legal, tax or accounting advice, (b) there may be legal, tax or accounting risks associated with any Transaction, (c) you should receive (and rely on) separate and qualified legal, tax and accounting advice and (d) you should apprise senior management in your organization as to such legal, tax and accounting advice (and any risks associated with any Transaction) and our disclaimer as to these matters. By acceptance of these materials, you and we hereby agree that from the commencement of discussions with respect to any Transaction, and notwithstanding any other provision in this presentation, we hereby confirm that no participant in any Transaction shall be limited from disclosing the U.S. tax treatment or U.S. tax structure of such Transaction.

We are required to obtain, verify and record certain information that identifies each entity that enters into a formal business relationship with us. We will ask for your complete name, street address, and taxpayer ID number. We may also request corporate formation documents, or other forms of identification, to verify information provided.

Any prices or levels contained herein are preliminary and indicative only and do not represent bids or offers. These indications are provided solely for your information and consideration, are subject to change at any time without notice and are not intended as a solicitation with respect to the purchase or sale of any instrument. The information contained in this presentation may include results of analyses from a quantitative model which represent potential future events that may or may not be realized, and is not a complete analysis of every material fact representing any product. Any estimates included herein constitute our judgment as of the date hereof and are subject to change without any notice. We and/or our affiliates may make a market in these instruments for our customers and for our own account. Accordingly, we may have a position in any such instrument at any time.

Although this material may contain publicly available information about Citi corporate bond research, fixed income strategy or economic and market analysis, Citi policy (i) prohibits employees from offering, directly or indirectly, a favorable or negative research opinion or offering to change an opinion as consideration or inducement for the receipt of business or for compensation; and (ii) prohibits analysts from being compensated for specific recommendations or views contained in research reports. So as to reduce the potential for conflicts of interest, as well as to reduce any appearance of conflicts of interest, Citi has enacted policies and procedures designed to limit communications between its investment banking and research personnel to specifically prescribed circumstances.

Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi's unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting $50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles; a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy and mitigation